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ABSTRACT

Background information for the auditing of New Jersey School Districts is given. Included are chapters on the following: (1) a digest of the School Audit Law, Title 18A:23-1 to 18A:23-11; (2) directives to the Boards of Education; (3) school district bookkeeping; (4) scope of funds to be audited; (5) conducting the school audit; and (6) sample of audit report containing reports from several funds including, (1) General; (2) Special Revenue; (3) Capital Projects; (4) Debt Service; (5) Enterprise; (6) Trust and Agency; (7) Student Activity; (8) General Fixed Assets Account Group; (9) General Long-Term Debt Account Group; and (10) Supporting Schedules. Described in appendices are the following: (1) Circular A-102, Attachment P and Compliance Supplement; (2) School Nutrition Program requirements; (3) fund classification descriptions; (4) Chapters 192/193 State Aid Payments; (5) accounting for special projects; and (6) qualifications of independent auditors. (LMO)

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FINANCIAL ACCOUNTING FOR NEW JERSEY SCHOOL DISTRICTS

THE AUDIT PROGRAM

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FINANCIAL ACCOUNTING
FOR
NEW JERSEY SCHOOL DISTRICTS

1984

THE AUDIT PROGRAM

NEW JERSEY
STATE DEPARTMENT OF EDUCATION
DIVISION OF FINANCE
225 WEST STATE STREET
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THE AUDIT PROGRAM
NEW JERSEY SCHOOL DISTRICTS
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I. DIGEST OF THE SCHOOL AUDIT LAW, TITLE 18A:23-1 TO 18A:23-11 as amended

The statute requires that an audit be made only by a registered municipal accountant or a certified public accountant of New Jersey who holds an uncanceled registration license as a public school accountant of New Jersey.

The audit shall include an audit of the books, accounts and moneys and a verification of all cash and bank balances of the board of education, and of any officer or employee thereof, and of any organization of public school pupils conducted under the auspices of the board of education.

The audit must be completed not later than November 1 of each year. No provision is made for the issuance of extensions beyond the statutory due date.

If a school district fails to have an annual audit completed by November 1 the Commissioner of Education can appoint a qualified auditor to conduct the audit of the school district. The cost of conducting such an audit would be paid out of the funds of the school district.

18A:23-9. Declaration of Accountant. "No person shall undertake the auditing of the accounts of any school district unless qualified as a public school accountant for New Jersey upon proof of registration as a registered municipal accountant or a certified public accountant, of New Jersey, and by subscribing to the following declaration:

a. That the accountant is fully acquainted with the laws governing the fiscal affairs of school districts of New Jersey and a competent and experienced auditor; and

b. That the accountant will honestly and faithfully audit the books and accounts of any school district when engaged to do so, and report any error, omission, irregularity, violation of law, discrepancy or other non-conformity to the law, together with recommendations, to the board of education of such school district.

The audit report must be signed by the individual making the audit or in charge of the audit and not by the firm or corporation which employs the auditor.

Within five days after filing the report of audit and recommendations with the school district, the auditor must file two certified signed duplicate copies of the report and recommendations as follows:

ONE TO THE - Commissioner of Education
Division of Finance
225 West State Street
CN 500
Trenton, New Jersey 08625

AND

ONE TO THE - County Superintendent of Schools

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II. DIRECTIVES TO BOARDS OF EDUCATION

THE BUDGET

Preparation of the budget is one of the most important functions of the board. After approval by the Board of School Estimate in districts in which the Board of School Estimate fixes and determines the tax levy; or the electorate in districts in which the tax levy is voted upon at the annual school election; or by the municipal governing body or bodies where items were rejected by the electorate; or by the commissioner, it becomes the legal program of expenditures for the school year. The approved budget should be detailed on budget forms prescribed by the Department of Education.

MEETINGS OF PUBLIC BODIES-THE SUNSHINE LAW

In enacting the Open Public Meetings Act, the legislature declared that secrecy in public affairs undermines public faith in government and that the right of the public to witness in full detail all phases of the deliberation, policy formulation and decision-making of public bodies is vital to the proper functioning of the democratic process. (N.J.S.A. 10:4-6 et seq.)

In general, the statute requires that the public be given advance notice of and the right to attend meetings of public bodies and that all discussions and official actions, unless specifically exempted, take place in public.

Minutes must be kept of all meetings, which at a minimum must include the announcement of the presiding person at the commencement of the meeting, the time and place of the meeting, and the names of the members present, the subjects considered, the actions taken and the vote of each member on any items voted upon. The following should be detailed in the minutes.

a. A list of all salaries and wages approved by the board.

b. The final approved budget upon which taxes were based and details of the public hearing on the budget.

c. Details of the annual organization meeting of the board, including the results of the election.

d. Lists of claims approved for payment by the board.

e. Summary of monthly financial statements of the secretary and the treasurer.

f. Authorization for advertising for bids, with summary of the bids received and subsequent award of same.

BOOKKEEPING RECORDS

Prescribed bookkeeping forms can be obtained from the New Jersey State Department of Education. New Jersey Administrative Code permits local school districts to use mechanized bookkeeping forms in lieu of the prescribed manual bookkeeping forms. All cards and forms used with mechanical bookkeeping

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systems to be installed by local boards of education must be approved by the commissioner prior to the installation and purchase of such equipment. (N.J.A.C. 6:20-2.8)

EXTRA-CURRICULAR ACTIVITIES FUNDS

The board should formally approve each fund in its school district. If any fund is an activity carried on by the board, an officer or employee of the board, or an organization of public school pupils conducted under the auspices of the board, the board must assure that financial and bookkeeping controls are established.

APPOINTMENT OF AUDITOR

RULES OF PROFESSIONAL CONDUCT

The public school auditor must follow the rules of professional conduct required by N.J.A.C. 13:29-3 et seq. and promulgated by the Board of Accountancy, Department of Law and Public Safety.

COOPERATION WITH THE AUDITOR

Because the compensation of the auditor is determined by the amount of time required to complete the audit, the auditor should not perform routine office work. School board business personnel are expected to perform the following actions in advance of the audit. The failure of such personnel to complete them must become a matter of recond in the confidential report filed with the Division of Finance, Department of Education.

A. All cash on hand, including the 'petty cash fund,' must be deposited in the bank depository by June 30.

B. All entries must be posted to date and records balanced.

   1. All entries in the financial records of the secretary and the treasurer of school moneys must be up-to-date and balances reconciled. In addition to balancing the general control, the secretary should take a trial balance on cash disbursements, payables and receivables.

   2. All entries in the Food Service, Athletic Association and Student Activity Account records posted to date and records must be balanced. (NOTE: The board should make arrangements to have the records of each such fund made available to the auditor during the school's summer vacation).

   3. The Net Payroll Account and Payroll Agency Account must be reconciled monthly.

   4. Bond and interest accounts must be currently maintained and reconciled monthly.

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C. Assemble and have the following records available for audit:

1. Monthly financial statements, prescribed by statute, of the secretary and the treasurer of school moneys per 18A:17-9 and 36.

2. All purchase orders, including a list of outstanding purchase orders for both the beginning and ending dates of the audit.

3. All paid and voided warrants and payroll checks, together with the bank statements on which they are listed, arranged by months. Certified copies of payrolls in chronological order.

4. Paid claims filed in order of payment. The secretary should be certain that all paid claims have been properly approved for payment, recorded in the minutes, and that affidavits or declarations have been completed on those exceeding twenty-five dollars.

5. Monthly bank reconciliations.

6. Paid bonds and coupons, together with reconciled bank statements on which they are listed chronologically. The bond register, posted to date.

7. Minutes of board meetings, which should be examined prior to the audit to determine whether the proceedings are complete and properly signed.

8. Insurance policies and fidelity bonds available for audit.

9. All contracts, including transportation agreements, leases and conveyances. (Contracts should include all salary, transportation and other written contracts.)

10. Records, bills, orders and other supporting data of the Food Service Fund, Athletic Association, Activity Accounts and Special Projects.

11. Statements of verification of state, and federal funds, or other entitlements.

The board must act on auditor's recommendations. The records of the secretary should be adjusted in accordance with the audit.

SYNOPSIS AND HEARING ON AUDIT

Title 18A:23-3 states in part that "The commissioner annually shall publish a summary of such recommendations as made for each school districts and the steps which have been taken in each district for their implementation."

In order to comply with the above requirements, it is requested that the Secretary of the Board prepare the audit synopsis under the following format"

a. Comparative combined balance sheet of Current Expense, Capital Outlay, Improvement Authorization, Debt Service Funds, Special Revenue Funds, Enterprise Funds, Trust Agency Funds, Student Activity Funds, General Fixed Assets and General Long Term Debt.

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b. Comparison of revenues, current and preceding year.

c. Comparison of expenditures, current and preceding year.

d. Reflect each audit recommendation under the applicable heading listed below:

   1. Administrative Practices & Procedures

   2. Financial Planning, Accounting & Reporting

   3. School Purchasing Programs

   4. School Food Service

   5. Student Body Activities

   6. Miscellaneous

e. A copy of minutes of the board meeting, at which the audit recommendations were read and discussed must be filed with the State Department of Education and county superintendent of schools together with the synopsis within 30 days following the meeting at which the audit was discussed. Specific board action and disposition of each audit recommendation must be duly noted in the minutes of the board.

III. SCHOOL DISTRICT BOOKKEEPING

The State Board of Education has, in accordance with law, prescribed a uniform system of bookkeeping for the general funds of all school districts and is authorized to compel its use. N.J.A.C. 6:20-2.1

Separate accounts must be maintained for:

Current Expenses (General Funds) J-1
Current Expenses (Special Project Funds) J-2*
Capital Outlay (Current Operating)
Capital Outlay (Improvement Authorization)
Debt Service
Capital Reserve Fund of Deposit

Debt Service accounts are maintained by Type II school districts only; in Type I school districts, debt service is a municipal function.

* J-1 SPECIAL PROJECTS

FEDERAL

P.L. 94-482 - Vocational
P.L. 82-815 - Construction-federally impacted areas
P.L. 97-35 - ECIA Chapter 1 and 2
P.L. 94-142 - Educational Handicapped Act (EHA)
P.L. 91-230 - Adult Basic Education (ABE)
Other - Direct Grants

STATE

Compensatory Education
Bilingual Education
Nonpublic Textbooks
Nonpublic Auxiliary Services
Nonpublic Handicapped Services

Beginning in the 1985-86 school year the following special education categorical programs must be separately accounted for as J-2 Special Projects. Line items must include salaries and other expenses per N.J.S.A. 18A:22-8(d)(i)(ii):

Educable
Trainable
Neurologically Impaired
Perceptually Impaired
Emotionally Disturbed
Multiply Handicapped
Socially Maladjusted
Auditorially Handicapped
Orthopedically Handicapped
Chronically Ill
Visually Handicapped
Communication Handicapped

Supplementary Instruction
Speech Instruction
Resource Rooms
Home Instruction
Pre-School Handicapped
Local Vocational

SPECIAL SCHOOLS

J-3 Accredited Evening/Adult High School
J-4 Adult Education
J-5 Regular Evening Schools
J-6 Summer Schools
J-7 Vocational Evening
J-8 Evening School for Foreign Born

E.C.I.A.

The "Education Consolidation and Improvement Act" of 1981 consists of two chapters and four subchapters as follows:

Chapter 1: Financial Assistance to Meet Special Educational Needs of Disadvantaged (formerly Title I). Budgetary restrictions on use of funds continue as in prior years.

Chapter 2: Consolidation of Federal Programs for Elementary and Secondary Education--consolidates Title II through IV; VIII and IX (except Part C) and supporting authorizations into a single program of grants to States. Chapter 2 is divided into four subchapters:

Subchapter A - Basic Skills Development - to improve instruction in the basic skills.

Funds may be used for the following activities:

1. Planning, Research and Development - state grants to school districts for services for improvement of instruction and to enlist assistance of parents and volunteers to improve instruction.

2. School level programs such as diagnostic assessment, personnel training, parent participation and testing and evaluation.

Subchapter B - Educational Improvement and Support Services

Funds may be used for the following activities:

1. Acquisition and use of school library resources and instructional equipment taking into account the needs of private school children.

2. Improvement of local educational practices, particularly addressing educational problems of children with special needs, such as educationally deprived and gifted and talented children.

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3. Assistance to local educational agencies to address educational problems associated with minority isolation or concentration. Funds cannot be used for pupil reassignment, transportation, or purchase of equipment for transportation.

4. Guidance counseling and testing.

5. Improvement of planning, management and implementation of educational programs.

6. Teacher training and staff development.

7. Assistance to local educational agencies with schools undergoing desegregation.

Subchapter C - Special Projects

Funds may be used for the following activities:

1. Special Projects such as metric education, arts in education, in-school and pre-school partnership programs, consumer education, employment programs, career education (CETA): environmental, health, law-related and population, corrections education, and biomedical sciences.

2. Community education.

3. Gifted and talented education, establishment of educational proficiency standards and administration of examinations; safety in schools programs; ethnic heritage studies programs; and programs involving training and advisory services under Title IV of the Civil Rights Act of 1964.

Subchapter D - Secretary's Discretionary Funds

Funds may be used at the discretion of the U.S. Secretary of Education for the following activities:

1. Gathering, dissemination, and individual needs assessment, and other programs.

2. Research and demonstration.

3. Teacher and other personal training.

4. Technical assistance to state and local education agencies.

BLOCK GRANT APPLICATIONS AND BUDGET REQUIREMENTS FOR LOCAL EDUCATION AGENCIES

Proposed public school expenditures for Chapter 2 grants must be summarized on the application by subchapter for the following line accounts:

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1. Salaries

2. Textbooks

3. Instructional Materials and Equipment

4. Other

5. Indirect Costs

Proposed expenditures for Nonpublic Schools must be separately summarized except for Indirect Costs.

ACCOUNTING REQUIREMENTS FOR BLOCK GRANTS

Separate accounting must be maintained for the three broad categories (Subchapters).

The board of education may transfer funds at its discretion from one line account to another within each subchapter in order to achieve the goals and objectives of each program. The State Department of Education must be informed of all budgetary changes. Projects within each subchapter must be separately accounted for at the local level. However, expenditures may be summarized by Subchapter in the annual audit.

FEDERAL AUDIT REQUIREMENTS

Effective July 20, 1982, a financial and compliance audit must be performed (Per Attachment P to OMB Circular A-102). The audit must conform to standards established by the U.S. Comptroller General. The current audit standards are specified in Standards for Audit of Governmental Organization, Programs, Activities and Functions. (Comptroller General of the U.S. 1981 Revision. Available from the Superintendent of Documents; Stock Number 020-000-00205-1). The auditor should refer to the supplement to OMB Circular 102 which presents information on the major compliance features of Federal aid to State and local governments. Compliance Supplement 1982-0-395-137/389.

State rules and regulations for application for block grant funds, accounting and audit requirements were provided to all boards of education for the 1982-83 school year. An audit of block grants is required for each school year as part of the annual audit.

BOOKKEEPING FORMS

School districts are required by administrative code to use the following forms, or comparable format, which are provided by the State Department of Education: N.J.A.C. 6:20-2.7.

TITLE OF FORMS	REVISED FORM NUMBERS
Budget	100-104

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TITLE OF FORMS	REVISED FORM NUMBERS
Appropriations Receivable	105
Cash Receipts	110-a
Cash Expenditures	110-b
General Control	115
Blank	120
Property	130
Tuition-for Sending	135-a
Tuition-for Receiving	135-b
Payroll Agency	140
Bond Register	145
Requisition for Taxes (Other than Debt Service)	T-1
Requisition for Debt Service Taxes	T-2

All cards and forms used with mechanical bookkeeping systems must have State Department approval prior to conversion of the prescribed manual system set forth by the State Department of Education. N.J.A.C. 6:20-2.8.

The State Board of Education has not prescribed a uniform system of bookkeeping for the internal funds of school districts. However, the following are the recommended minimum requirements for such funds:

RECEIPTS

Receipts must be detailed showing date, source, purpose and amount. All receipts should be promptly deposited in the bank. Bank deposits must agree with the receipts in the cash receipt book and must be traceable to definite receipts or groups of receipts.

DISBURSEMENTS

Disbursements must be recorded chronologically showing date, vendor, check number, purpose and amount. All disbursements should be made by check and supported by a claim, bill or written order of persons supervising the fund. Checks should bear two or more authorized signatures.

BANK RECONCILIATION

Book balances must be reconciled with bank balances. Canceled checks and bank statements must be retained for examination by the auditor.

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IV. SCOPE OF FUNDS TO BE AUDITED

The audit must include the books, accounts and moneys of the board of education, any employee or any organization conducted under the auspices of the board of education.

SCOPE OF FUNDS TO BE AUDITED

1. General Fund
2. Special Revenue Funds
3. Capital Projects Funds
4. Debt Service Funds
5. Enterprise Funds
6. Trust and Agency Funds
7. Student Activity Funds
8. General Fixed Assets Account Group
9. General Long-Term Debt Account Group

ORGANIZATIONS UNDER THE AUSPICES OF THE SCHOOL

An organization which is officially recognized by the school as part of the activity program of the school and the board of education is at least indirectly responsible for supervision and control. When, in the conduct of such an organization, moneys are collected and disbursed for the activities of the organization, accounts must be kept, and such accounts must be audited.

FUND RAISING IN SCHOOLS BY OUTSIDE ORGANIZATIONS

Organizations such as the United Fund, March of Dimes, etc., may request that moneys be collected. These funds <u>are not subject to audit</u>. The board of education may give permission for the collection to be made in the school. Any teacher or pupil who serves as a collector does so as a private citizen and not as an employee of the board. Accurate records must be kept but responsibility is to the organization and not to the board of education for the money collected.

In order to avoid misunderstanding we advise that boards of education, in giving permission for soliciting in a school building by outside organizations, make it clear that the board is not directing the teachers and pupils to collect funds but merely granting permission to do so. The board is further advised to disclaim any responsibility for the protection of and the accounting for the funds to the outside organizations.

Any collector should understand that he is collecting voluntarily as a citizen and not as a teacher or pupil and that the board of education has no responsibility for the protection of moneys so collected.

FUNDS BELONGING TO OUTSIDE ORGANIZATIONS SHOULD NOT BE DEPOSITED IN THE CENTRAL ACTIVITY FUND OF THE SCHOOL

Some boards may have given permission for depositing funds collected in drives in school activity account and the issuance of checks thereon to the outside organization. Although this might be a convenience to school personnel who

are handling the money collected, it causes an undesirable mingling of funds for which the board should have no responsibility. The comingling of such funds is legally suspect. However if it occurs these are subject to audit by the boards auditors.

FUNDS OF TEACHER ORGANIZATIONS AND PARENT TEACHER UNITS NOT SUBJECT TO AUDIT

The law provides that the books, accounts and moneys of any officer or employee of the board shall be audited. This does not mean that every time a school employee serves as treasurer of an organization that the account must be audited. It is only when money is held for which the board is directly or indirectly responsible that the accounts must be audited. The board has no responsibility for the funds of teacher organizations. A school employee who serves as a treasurer of such an organization does so as a citizen and not as an employee of the board. If moneys were deposited in a central school fund, they would be subject to audit.

FUNDS COLLECTED BY TEACHERS FROM PUPILS FOR IMMEDIATE PURCHASE OF TICKETS NEED NOT BE AUDITED

Teachers may receive money from children to buy magazines, tickets, etc., in lots in order to save the children money. It is our opinion that in so doing the teacher represents the children and not the school board and assumes full responsibility for the transactions.

V. CONDUCTING THE SCHOOL AUDIT

MINUTE RECORDS

The proceedings of the meetings of the board of education or board of school estimate should be recorded in a bound or an acceptable looseleaf type minute book and signed by the secretary. The minutes should be read by the auditor. This procedure is necessary to check on the actions of the board of education particularly with respect to the proceedings of the annual or special district meetings (elections) in Type II districts, to the submission of monthly financial reports, the approval of claims, requests for taxes, adoption of the budget, budget amendments, advertisements for bids and other financial matters of importance to the auditor. Minutes must include as a minimum the requirements of the "Sunshine Law" per N.J.S.A. 10:4-6 et. seq.

CONTRACTS

18A:18A-4. Contracts and agreements requiring advertising. "Every contract or agreement for the performance of any work or the furnishing or hiring of any materials or supplies, the cost or the contract price whereof is to be paid with or out of school funds, not included within the terms of N.J.S.A. 18A:18A-3, shall be made and awarded only by the board of education after public advertising for bids and bidding therefor, except as is provided otherwise in this chapter or specifically by any other law."

No work, materials or supplies shall be undertaken, acquired or furnished for a sum exceeding in the aggregate $7,500.00 except by contract or agreement.

BUDGETS

Check the budget as detailed on budget forms prescribed by the State Board of Education, against the final approved budget used for tax levy purposes in accordance with:

a. The Board of School Estimate in districts in which that body fixes and determines the tax levy;

b. The electorate in those districts in which the tax levy is voted upon at the annual school election:

c. The municipal governing body or bodies where items were rejected by the electorate;

d. The act of the commissioner in the event the governing body or bodies of such municipalities fail to certify.

These budget forms (100-104) are more detailed than those prescribed for budget advertisement. All authorized amendments and transfers should be reflected in the statement of "Revenues" and "Expenditures." The approved detailed budget must appear in the official minutes as a matter of record.

Transfers must be made whenever the line item is in danger of going into a deficit condition. A board of education may not pass a resolution which permits deficits in line items and also may not pass a resolution permitting administrators to transfer amounts pending board approval at the next meeting.

REVENUES AND RECEIPTS

All revenues accruing to the board of education for the period under audit must be verified. All receipts for the year and accounts receivable at the close of the year must be verified as to source and disposition. The auditor must comment in detail on any irregularity in the method of handling receipts and revenues.

DISTRICT TAXES

District taxes must be entered in the accounts for which they were voted (Type II) or were certified by the Board of School Estimate (Type I). Debt Service requirements in Type II districts are certified directly by the secretary. In Type I districts the school debt service is part of the municpal budget. Additional Appropriations by Board of School Estimate (Type I) or voters (Type II) and Appropriations from Municipal Surplus must be shown separately from the original tax certification in the audit report.

STATE FUNDS

State school aid payments made to school districts must be credited to the following accounts and separately reported on Exhibit A-2 and A-2 a.

CURRENT EXPENSE

J-1 Equalization Support (18A:7A-18, 18A:7A-24)

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J-1 90% Approved Transportation Aid (18A:58-7, as amended)

CATEGORICAL PROGRAM SUPPORT: (18A:7A-20)

J-1 Special Education
J-2 Compensatory Education
J-2 Bilingual Education
J-1 Local Vocational Education
J-1 Vocational Day
J-1 Emergency Aid (18A:58-11, as amended)
J-1 Public School Law Enf. Officer Aid (18A:17-44) (N.J.A.C. 6:20-5.2)
J-4 Adult Education (18A:50-7)
J-7 Evening Vocational (18A:54.9-54.32)
J-8 Evening School Foreign Born (18A:49-3)
J-4 High School Completion (18A:50-12)
J-4 Adult Literacy Supplement to H.S. Completion (18A:50-12)
J-2 Nonpublic Textbook
J-2 Nonpublic Auxiliary Services
J-2 Nonpublic Handicapped Services

DEBT SERVICE

Debt Service State Support (18A:7A-19)

Additional State School Building Aid (18A:58-33.2) (C.177)
Additional State School Building Aid (18A:58-33.6) (C.10)
Additional State School Building Aid (18A:58-33.22) (C.74)

CAPITAL OUTLAY

Budgeted Capital Outlay State Support (18A:7A-19)

FEDERAL FUNDS P.L. 97-35 (E.C.I.A.) P.L. 94-142 (E.H.A.) P.L. 91-230 (ABE)

These funds need not be prorated or separated in the General Control account. However, costs must be allocated to the proper line accounts. All activities must be separately reflected from regular budgetary activities under separate controls and line item accounts for each project.

P.L. 815 (For construction, due to federally impacted areas).

These funds must be entered in the land, buildings and equipment account and are to be considered revenue of the year during which specific allocation of funds is made by the federal government.

P.L. 94-482 VOCATIONAL

Funds for a day vocational program are entered in the current expense account. Funds for an evening program are entered in the vocational evening account.

P.L. 91-230 ADULT BASIC EDUCATION (ABE)

Funds for adult education are entered in Current Expense J-2 Special Projects.

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P.L. 97-35 The Education Consolidation and Improvement Act of 1981 (E.C.I.A.)

Funds are entered in the subdivision, Current Expense (J-2) "ECIA Accounts," by titles respectively. The funds need not be prorated or separated in the Control Account for Current Expense or Capital Outlay Expenditures. Costs, must be allocated to the proper accounts. All activities under the Education Consolidation and Improvement Act must be separately reflected from regular budgetary activities under separate controls and line item accounts.

OTHER SPECIAL FEDERAL PROJECTS-ECIA CHAPTER 2 (BLOCK GRANTS)

Various project funds may be combined under one Revenue and Expenditures control account. Separate schedules and reporting, however, must be submitted on each project activity. (See Revenues & Expenditures Exhibit C-9)

TUITION

Tuition revenue must be entered in the current expense account unless such fees are levied for attendance at an evening vocational school, in which case they are to be entered in the evening vocational account. The entire amount of tuition charged for the school year is revenue of the year even though part of the charge was uncollected at the close of the year.

BOND AND NOTE AUTHORIZATIONS

Bonds and notes authorized by the voters (Type II) or the Board of School Estimate (Type I) are revenue of the year of authorization subject to attorney general approval. Funds received from the sale of bond anticipation notes are not to be considered "Revenue."

If the bond authorization has not been approved by the Attorney General an appropriate comment shall be made by the auditor. The board has no power to make contracts prior to approval of the Attorney General regarding legality of the bond proceedings.

BOND SALES

The board of education cannot use a premium in excess of the bond authorization or the accrued interest for capital purposes since the board is limited by the amount voted (Type II) or certified by the Board of School Estimate (Type I). Receipts from premiums in excess of the authorization are to be entered in the Current Expense or Debt Service Accounts. Receipts from accrued interest are to be entered in the Debt Service accounts.

REFUNDS

Refunds must be shown as a "contra item" on the statement of Receipts and Disbursements and not reflected as revenues or expenditures. Sale of books, buildings, land and manual training materials and products and cancellation of warrants of prior years are not refunds.

CANCELLATIONS

Canceled tuition receivables of a prior year and canceled contractual orders of a prior year must be reflected in the audit report as adjustments and do not effect revenues or expenditures of the current year. Cancellation of warrants of a prior year are a revenue and a receipt of the current year.

EXPENDITURES

Expenditures must be checked and verified, properly authorized by the board of educaton and recorded in the minutes. Costs must be allocated to the proper account and sub-account. Districts must reflect transactions on a contractual basis.

PAYROLLS

All districts are required to use a payroll system consistent with minimum requirements outlined in the Department of Education Payroll Guide. Salaries must be substantiated against contracts or board of education minutes.

CASH RECONCILIATION

The cash book must be reconciled. Reconciliations of payrolls and bond and interest accounts are to be made in all districts maintaining such accounts and must be permanently recorded and filed for future reference. The auditor must verify the reconciliation of all cash accounts of the school district. Bank reconciliation statements are not required to be exhibited in the audit report. Workpapers must be available for review upon request.

GOVERNMENT SECURITIES

Government securities must be reported at cost to the Board of Education. The difference between cost and maturity value must be reflected as a memorandum note on the records. (SEE BALANCE SHEET)

PETTY CASH FUNDS

Petty Cash accounts must be closed out and cash on hand deposited in the bank by June 30. The board must set the maximum expenditure which may be made from the fund, designate a custodian of each fund who will be responsible for the proper disposition of funds and establish the minimum time period in which the person designated as custodian of the fund shall report to the board on amounts disbursed on a board voucher.

INTERNAL ACCOUNTS

Internal accounts and funds, except food service, should be reported in cash receipts and disbursements form. The food service fund must be reported on an accrual basis.

THE AUDIT REPORT

The "Comparative Balance Sheet," "Revenues and Expenditures," "Statement of Free Appropriation Balance," "Revenues," "Expenditures," and the "Receipts and Disbursements" must appear under Exhibit A of the Current Operating section of the report. All supporting statements to the above reports must appear in Section J of the report.

RECOMMENDATIONS

Recommendations must be specific and be grouped in a section of the report separate from Comments.

COMMENTS

This section of the audit must include comments on at least the following:

Advertisement for bids in accordance with statutory requirements. A general statement that bids were advertised where required, with all exceptions listed is satisfactory. The items of noncompliance should be listed and Title 18A:18A Public School Contracts Law should be quoted.

Fire Insurance Coverage

Surety Bonds as to Adequacy

Examination of Claims

Salary Accounts

Internal Control Procedures as to sufficiency, competency and relevance

Comparison of Realized Revenues (exclusive of appropriation of balances) for the current and preceding year.

Comparison of Expenditures for the current and preceding year. (By major accounts)

An analysis of federal aid reflecting for each grant, prior year balances, current year entitlement, amount received, adjustments and balance receivable.

That obligations, contracts, salaries and expenditures for federally funded projects were in accordance with laws and regulations and in conformity with procurement requirements.

A certification that district funds were provided and expended in the proper account.

Limitation of Principal Amount of Bonds 18A:24-19

School debt as at close of year and percentage of such debt to the average equalized valuation basis of real property. Auditors of Type I must include

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this schedule and explain that it is reflected in the municipal budget. Debt Service statements must reflect sufficient information to permit an easy reconciliation of beginning and ending debt balances.

CONDITION OF RECORDS: (Comment and separately report exceptions for the following)

A. Athletic Association
B. Food Services
C. Student Activity Fund
D. Secretary and Treasurer
E. Inventory

COMPARATIVE BALANCE SHEET

This statement must combine all funds under the auspices of the board of education reflecting nine separate fund types as follows:

A. Governmental Fund Types:

1. General Operating Fund
2. Special Revenue Fund
3. Capital Projects Fund
4. Debt Service Fund

B. Proprietary Fund

5. Enterprise Funds

C. Fiduciary Funds

6. Trust and Agency Funds
7. Student Activity Funds

D. Account Groups

8. General Fixed Assets
9. General Long Term Debt

REVENUES AND EXPENDITURES

All revenue, except miscellaneous revenue, should be detailed as to exact source. Only contractual orders of the current year should be shown as expenditures. Refunds should be excluded from this statement. Cancellations should be reflected as adjustments.

EXPENDITURES

Expenditures should be charged to the appropriate line account even though the district budget may group several line items. Additional appropriations and authorized transfers should be reflected on this statement in additional columns. Special project costs cannot be included in the line item budgetary day school costs.

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SERIAL BONDS

Auditors of Type I districts must include this statement as a "Memorandum Statement" in the Improvement Fund Section, Part C of the report. In the event a new issue is not in the amount of the original authorization, footnotes must be included explaining the difference.

IMPROVEMENT AUTHORIZATION - "BUILDING PROGRAMS"

A separate section, Part C, of the audit report must be reserved for Improvement Authorization reporting. The Improvement Authorization section, Part B, of the audit report must contain the following statements:

A. Balance Sheet
B. Receipts & Disbursements
C. Accounts Payable Schedule (Optional if list is filed in Board office)
D. Promissory Notes
E. Improvement Authorization Project Schedule
F. Serial Bond Schedule and/or Memorandum Statement if Type I School Debt Exists
G. Bond and Interest Reconciliation

SURETY BOND (TREASURER OF SCHOOL MONEYS)

The minimum requirements for the surety bond shall be such percentage of the current year's school budget as is required in the schedule set forth below:

Up to $100,000	10% of Budget (Minimum $5,000)
$100,000 to $250,000	$10,000 + 8% of all over $100,000
$250,000 to $500,000	$22,000 + 6% of all over $250,000
$500,000 to $750,000	$37,000 + 4% of all over $500,000
$750,000 to $1,000,000	$47,000 + 2% of all over $750,000
$1,000,000 to $2,000,000	$52,000 + 1% of all over $1,000,000
$2,000,000 to $5,000,000	$62,000 + ½% of all over $2,000,000
$5,000,000 to $10,000,000	$77,000 + ¼% of all over $5,000,000
$10,000,000 and upwards	$89,500 + 1/8% of all over $10,000,000

In fixing minimum bond, the nearest even $1,000 shall be used.

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FINANCIAL REPORTS

Each audit report containing financial reports shall:

1. Contain an expression of the auditor's opinion as to whether the information in the financial reports is presented fairly in accordance with generally accepted accounting principles (or with other specified accounting principles applicable to the organization, program, function, or activity audited), applied on a basis consistent with that of the preceding reporting period. If the auditor cannot express an opinion, the reasons therefore should be stated in the audit report.

2. Contain appropriate supplementary explanatory information about the contents of the financial reports as may be necessary for full and informative disclosure about the financial operations of the organization, program, function, or activity audited. Violations of legal or other regulatory requirements, including instances of noncompliance, and material changes in accounting policies and procedures, along with their effect on the financial reports, shall be explained in the audit report.

This standard places upon the auditor the responsibility for informing the reader on the degree of responsibility the auditor assumes for the financial data presented and for providing appropriate explanatory comments on significant financial issues affecting the reports and compliance with legal or other regulatory requirements.

OPINIONS ON FINANCIAL REPORTS

When financial reports of Federal departments, States, cities, counties, and other units of government and their programs, functions, or activities are being examined, the auditor should give his opinion as to whether the reports have been prepared in accordance with appropriate principles of accounting, applied on a basis consistent with that of the preceding period, and whether the auditor's examination was made in accordance with the accompanying auditing standards. Illustrative opinions are included in Federal audit guides and in pronouncements of the American Institute of Certified Public Accountants.[1] When conformity with special accounting principles is required instead of with generally accepted accounting principles, the special accounting principles followed by the audited organization, program, function, or activity should be specified in the opinion.

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[1] See "Statements on Auditing Procedure," particularly Statement 33.

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ACCOUNTING PRINCIPLES

Accounting principles are guides or rules developed from experience or from research. Their purpose is to provide assurance that the information presented in the financial statements is valid, useful, and reliable. The auditor should make sufficient examination into the accounting principles used to permit a professional opinion as to whether the accounting system and the representations of management evidenced by financial reports are in conformity with such principles. Material changes and the reasons for them, if ascertainable, should be identified and their effect upon the financial reports, both historically and prospectively, should be explained. The auditor should also state his opinion as to the propriety of the change. Accounting principles on which the auditor's opinion is based should be identified in his report, as should statutory or administrative provisions adversely affecting the accounting principles in use by the organization, program, or activity.

CONSISTENCY

The auditor should state whether the entity under audit has consistently followed the same accounting principles from one reporting period to another. This standard applies not only to data shown in statements of financial condition and operating reports but also to budgetary or statistical data which may be covered by the auditor's report.

When a qualification is required because of a lack of consistency that is material to the financial report, the qualification statement should describe (1) the reasons for the qualification, (2) the effect upon the financial reports of the audited entity, and (3) the auditor's opinion of the acceptability of the change.

DISCLOSURE

A governmental entity's reports and statements, both financial and operational, ideally should contain the information necessary for users--management, the electorate, creditors, grantors, and others--to form an opinion on the effectiveness of the stewardship exercised by the responsible public officials. The responsibility for providing such information is that of management. However, the auditor should comment if the data provided is insufficient to disclose any matters which may have a material effect upon the financial reports.

Adequate disclosure does not imply or require that an excessive amount of information be furnished. Disclosure should, however, be fair and reasonably complete--but not so complex as to confuse or impede understanding. Information should be reduced to manageable and understandable proportions, yet it should avoid summarization to such an extent that needed background or relationships are omitted or blurred.

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Weight should be given to materiality, which is the relative importance or relevance of an item included in or omitted from a financial or operating report. There are no universal ratios or percentages that can be used as standards of materiality for financial or operational processes or transactions. Materiality should be based on judgment.

Six specific indicators of materiality which can be used individually or in combinantions are:

1. Absolute dollar amount.

2. Ratio of amount of an item to an appropriate base figure.

3. Length of life of an asset.

4. Importance of the item to the accomplishment of the mission.

5. Importance to the maintenance of adequate controls, such as a pattern of small discrepancies.

6. The characteristic of the items involved, such as indications of malfeasance or misfeasance.

Events that occur subsequent to the end of the period under audit may have a material effect on the operations of the entity or on its operational or financial reports. Such events may affect financial reports directly, may affect the entity with indirect effects on financial reports, or may affect conditions under which the operations take place. If such events occur they should be disclosed in the audit report either by revision of the financial reports or by commentary in the auditor's report.

LEGAL OR REGULATORY REQUIREMENTS

In any governmental audit in which the auditor is expected to give an opinion on the fairness of the presentations in financial reports, compliance with applicable laws and regulatory requirements is a matter of importance because noncompliance might result in liabilities not disclosed in the financial reports. Compliance with laws and regulatory requirements, in many instances, assumes an even greater importance since the recipients of the financial reports and the audit reports also want to know whether funds designated for certain purposes were spent for those purposes.

The standards for examination and evaluation require consideration of applicable laws and regulations in the auditor's examination. The standards for reporting require a statement in his report regarding any significant instances of noncompliance disclosed by his examination and evaluation work. What is to be included in this statement requires judgment. Significant instances of noncompliance, even those not resulting in legal liability to the audited entity, should be included. Minor procedural noncompliance need not be disclosed.

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Although the reporting standard is generally on an exception basis--that only noncompliance need be reported--it should be recognized that governmental entities often want positive statements regarding whether or not the auditor's tests disclosed instances of noncompliance. This is particularly true in grant programs where authorizing agencies frequently want assurance in the auditor's report that this matter has been considered. For such audits auditors should obtain an understanding with the authorizing agency as to the extent to which such positive comments on compliance are desired. When coordinated audits are involved, the audit program should specify the extent of comments that the auditor is to make regarding compliance.

When noncompliance is reported, the auditor should place his findings in proper perspective. The extent of instances of noncompliance should be related to the number of cases examined to provide the reader with a basis for judging the prevalence of noncompliance.

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INDEPENDENT AUDITOR'S REPORT

September 1, 19XX

Honorable President and
Members of the Board of Education
_____School District
County of _____
_____, New Jersey _____

I have examined the combined financial statements of the Board of Education of the _____School District in the County of_____ and its individual fund financial statements for the fiscal year ended June 30, 19XX, listed in the foregoing table of contents. My examination was made in accordance with generally accepted auditing standards and in compliance with audit requirements as prescribed by the Division of Finance, Department of Education, State of New Jersey and, accordingly, included such tests of the accounting records and such other auditing procedures as I considered necessary in the circumstances. I made a similar examination of the financial statements for the fiscal year ended June 30, 19XX.

In my opinion, the combined financial statements present fairly the financial position of the Board of Education of the _____ School District in the County of _____at June 30, 19XX and the results of operations and changes in financial position of its proprietary funds for the year then ended, in conformity with generally accepted accounting principles and accounting principles and practices prescribed by the Division of Finance, Department of Education, State of New Jersey, applied on a basis consistent with that of the preceding fiscal year. Also, in my opinion, the individual fund financial statements present fairly the financial position of the individual funds of the _____School District in the County of _____at June 30, 19XX, their results of operations, and changes in financial position of individual proprietary funds for the year then ended, in conformity with generally accepted accounting principles and accounting principles and practices prescribed by the Division of Finance, Department of Education, State of New Jersey, applied on a basis consistent with that of the preceding year.

The accompanying supplemental schedules and information presented in the "Supplementary Data" and "Letter of Comments and Recommendations" sections are not necessary for a fair presentation of the financial statements for 19XX-XX school year, but are presented as additional analytical data, as required by the Department of Education. The information for 19XX-XX and prior school years has been subjected to the tests and other auditing procedures applied in the examination of the financial statements mentioned above and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Respectfully submitted,

_____
Public School Accountant

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Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation - Except for the Food Service Fund, depreciation is not recorded on fixed assets.

Depreciation in the Food Service Fund is computed by the use of the straight-line method based upon the estimated useful lives of the assets as established by the U.S. Department of Agriculture.

Tuition Receivable - Tuition charges were established by the Board of Education based on estimated costs. The charges are subject to adjustment when the final costs are determined.

Tuition Payable - Tuition charges for the fiscal years 19___-___ and 19___-___ were based on rates established by the receiving district. These rates are subject to change when the actual costs have been determined.

Note 2: INVENTORY

Inventory in the Food Service Fund at June 30, 19___ and 19___ consisted of the following:

	19___	19___
Food	$2,000	$1,000
Supplies	2,000	2,200
	$4,000	$3,200

Note 3: PENSION AND RETIREMENT PLANS

The teachers and members of the professional staff are enrolled in the Teachers' Pension and Annuity Fund of the State of New Jersey. Certain other employees hired before August 1, 1966 are also enrolled in this fund. The State of New Jersey pays through an annual appropriation, the employer's contributions including the employer's share of the Social Security tax for all persons enrolled in this fund.

The Board of Education pays annually for veterans' pension liability. The accrued liability of $1,372.00 is payable in annual installments of $343.00 with the last installment due on July 1, 1986. Also, the Board pays an annual charge for their share of Administrative Expense to the State of New Jersey.

All other eligible employees are enrolled in the Public Employees' Retirement System (N.J.S.43:15A-1 et seq.) The Division of Pensions, within the Treasury Department of the State of New Jersey, is the administrator of these funds and charges the school district annually for its contribution.

SCOPE OF AUDIT

The audit covered the financial transactions of the secretary and treasurer of school moneys, the activities of the board of education, the records of the Athletic Activities Fund, the General Organization Fund, Food Service Fund and Special Program Funds under the auspices of the Board of Education.

COMMENTS

ADVERTISEMENT FOR BIDS

The minutes indicated that:

Bids were advertised as required except as noted.

Informal bids were obtained for kindergarten supplies; the statutes do not require advertisement for bids.

It was noted that no bids were advertised for fuel oil during the 19XX-XX school year. (Quote statute only if noncompliance is noted in bidding.)

TITLE 18A:-18A "Public School Contracts Law"

> 18A:18A-4. Contracts and agreements requiring advertising. Every contract or agreement for the performance of any work or the furnishing or hiring of any materials or supplies, the cost or the contract price whereof is to be paid with or out of school funds, not included within the terms of N.J.S. 18A:18A-3, shall be made and awarded only by the board of education after public advertising for bids and bidding therefor, except as is provided otherwise in this chapter or specificially by any other law.

No work, materials or supplies shall be undertaken, acquired or furnished for a sum exceeding in the aggregate $7,500 except by contract or agreement.

INSURANCE

Fire insurance coverage evidenced by policies bearing uniform schedules were found to be carried in the following amounts:

UNIT	BUILDING	CONTENTS	TOTAL
School No. 1	$ 1,250,000	$ 100,000	$ 1,350,000
School No. 2	2,200,000	160,000	2,360,000
High School	6,650,000	830,000	7,480,000
	$10,100,000	$1,090,000	$11,190,000

OFFICIAL BONDS

NAME	POSITION	AMOUNT
John Jones	Secretary	$ 2,000
Mary Smith	Food Service Manager	2,500
Henry Brown	Treasurer, General Organization	2,500
Harry Doe	Treasurer of School Moneys	75,500
John Jones	Treasurer, Athletic Association	2,000

The bond of Mary Smith, Food Service Manager, lapsed as of April 1, 19XX. The treasurer of school moneys was bonded in a surety bond in accordance with provisions of Title 18A:17-32 within minimum limits of the schedule promulgated by the New Jersey State Board of Education.

EXAMINATION OF CLAIMS

An examination of claims paid during the period under review indicated several minor discrepancies with respect to certification, proper itemization and the lack of signatures by officials.

Analysis of P.L. 874 Federal Aid

YEAR	BALANCE 6/30/XX	19XX-XX ENTITLEMENT	RECEIVED	ADJUSTMENT	BALANCE RECEIVABLE
19XX-XX	$1,500 1/	$ 500 2/	$ - 0 -	($2,000) 2/	- 0 -
19XX-XX		75,500	70,000	- 0 -	$5,500

1/ The June 30, 19XX-XX receivable of $1,500 was not reflected on the Balance Sheet or the Free Balance Section of the records.

2/ The 19XX-XX receivable and additional entitlement of $500 was cancelled from the records due to recomputation in entitlement.

Comparison of Realized Budgetary Revenues (Exclusive of Appropriation of Free Balances of Preceding Year)

	19XX-XX	19XX-XX
District Tax	$	$
State Aid	$	$
Federal Aid	$	$
Tuition	$	$
Miscellaneous	$_____	$_____
TOTALS	$_____	$_____

NOTE: Auditors of districts which received or became eligible for federal aid are asked to include an analysis schedule thereof.

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Comparison of Budgetary Expenditures

Current Expenses:	19XX-XX	19XX-XX
Day School Operation	$	$
Special School Operations (J-3 thru J-8)	$	$
Total Current Expense	$	$
Capital Outlay (Budget)	$	$
Debt Service (Type II)	$	$
	$	$
TOTAL EXPENDITURES	$	

School Debt as of June 30, 19XX

Serial Bonds Issued and Outstanding	$1,400,000
Serial Bonds Authorized but not issued	- 0 -
Notes Authorized	- 0 -
Gross School Debt	$1,400,000
Less: Sinking Funds Held by Sinking Fund Commission	- 0 -
Net School Debt	$1,400,000

EQUALIZED VALUATION BASIS OF REAL PROPERTY

YEAR	AMOUNT
19XX	$215,458,729
19XX	222,416,492
19XX	242,362,867
Average For The Three-Year Period	$226,746,029

Per cent of School Debt to Average Equalized Valuation
(Net School Debt $1,400,000 - Average $226,746,029 = .62%

NOTE: For Type I districts, include this schedule but designate it as "Memorandum" and explain that it is the debt of the municipality and that Debt Service is provided by the municipal budget. Also, "Memorandum Statement" in Section C must be completed on school bonded indebtedness by municipality. N.J.S.A. 18A:24-19.

THE EDUCATION CONSOLIDATION AND IMPROVEMENT ACT OF 1981 (ECIA)

The audit must include comments on at least the following:

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A. The records submitted to us disclosed that:

1. Obligations reported were incurred during the fiscal year or project period from which the project was approved, and upon liquidation, were properly adjusted.

2. All obligations made for federally supported ECIA projects were made against approved projects.

3. Costs, such as salaries, travel, etc., were correctly prorated.

B. Examination of records was made in accordance with minimum audit requirements set forth by the State Department of Education, and OMB Circular 102 Attachment P.

C. The ECIA financial exhibits contained herein represent a true statement of the financial position pertaining to projects under Chapter 1 and 2 of the Education Consolidation and Improvement Act.

D. Balances and totals reflected in the secretary's records are (are not) in agreement with balances reported in the various schedules herein.

OTHER SPECIAL FEDERAL PROJECTS (SEE BLOCK GRANTS)

The audit should include comments on at least the following:

A. Type of special projects approved and the appropriations.

B. Obligations and expenditures incurred during the fiscal year or project period for which the project was approved.

C. All obligations and expenditures made for approved projects.

D. Balances and totals reflected by the secretary are (are not) in agreement with balances reported in the various schedules herein.

PAYROLL ACCOUNT

The net salaries of all employees of the board were deposited in the Payroll Account. Employees' payroll deductions and the board's required payroll contributions were deposited in the Agency Reserve Account.

All payrolls were approved by the superintendent and were certified by the president of the board, and the secretary.

Salary withholding were promptly remitted to the proper agencies.

STUDENT ACTIVITY FUND

A cash receipts and disbursement record was maintained in good condition.

All receipts were promptly deposited in the bank.

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Payment authorizations were presented for audit but the invoices were not available for examination.

ATHLETIC ASSOCIATION

A cash receipts and disbursement record was maintained in satisfactory condition.

All receipts were promptly deposited in the bank.

Several bills and invoices were not available for comparison with the cash disbursements record.

SCHOOL FOOD SERVICES

The financial transactions and statistical records of the school food services were maintained in satisfactory/unsatisfactory condition. The financial accounts, meal count records and eligibility applications were reviewed on a test check basis.

The number of meals/milks claimed for reimbursement was verified against sales and meal count records. Reimbursement vouchers were properly/improperly computed and timely filed, (but meals claimed did not agree with meal count records resulting in the following variances as detailed on Exhibit E-4).

Applications for free and reduced price meals were reviewed for completeness and accuracy (note any exceptions). The number of free and reduced price meals claimed as served did/did not exceed the number of valid applications on file. The free and reduced priced meal and free milk policy is uniformly administered throughout the School System.

Expenditures were separately recorded as food, labor and other costs. Vendor invoices were reviewed and costs verified. Inventory records on food and supply items were currently maintained and properly applied in determining the cost of food and supplies used.

Time sheets were reviewed and labor costs verified. Payroll records were maintained on all CNP employees authorized by the board of education.

The cash disbursements records reflected expenditures for program related goods and services (note any exceptions). The appropriate revenue and expenditure records were maintained in order to substantiate the non-profit status of the school food service. Net cash resources did/did not exceed three months average expenditures. (See Exhibit E-3)

The expenditure of $5,000 which is reflected for "Food Service" in the general accounts of the board of education represents payment by the board to cover a portion of deficit operation in food service.

" USDA Commodities were received and a separate inventory was maintained on a first in first out basis."

Exhibits reflecting Child Nutrition Program operations are included in Section E of the audit.

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CONDITION OF RECORDS

The financial records, books of accounts and minutes maintained by the Secretary were in satisfactory condition. The prescribed contractual order system was (was not) followed.

The treasurer's records were examined and were (were not) found to be in agreement with records of the Secretary.

Department of Education approval on mechanized bookkeeping conversion was available for review.

RECOMMENDATIONS

It is recommended that:

I. ADMINISTRATIVE PRACTICES & PROCEDURES

A. The approved budget be detailed on budget forms (100-104) prescribed by the Department of Education.

B. Minutes reflect list of claims approved for payment by the board.

C. Board policies be officially adopted by the board at the reorganization meeting.

II. FINANCIAL PLANNING, ACCOUNTING & REPORTING

A. Cash receipts be promptly deposited

B. The treasurer of school moneys reconcile cash monthly.

C. The state prescribed contractual order system of accounting be fully implemented.

III. SCHOOL PURCHASING PROGRAMS

A. The board of education advertise for bids on school supplies in accordance with Statutes.

B. The board of education consider joint purchasing with the municipality or cooperative purchasing through the State of New Jersey.

C. The board establish policies for the procurement of supplies, equipment and services.

IV. SCHOOL FOOD SERVICE

A. All disbursements be supported by vendors invoices and signed delivery slips.

B. A daily count of milk and lunches served to students and adults be accurately maintained.

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C. The number of meals served be accurately reported on the reimbursement vouchers.

V. STUDENT BODY ACTIVITIES

A. Vendors invoices be available for audit

B. Separate accounting be maintained for each activity

VI. MISCELLANEOUS

A. The bond of the treasurer of school moneys be increased to the minimum requirement of Title 18A:17-32

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SECTION A

GENERAL FUND

EXHIBIT

A	Consolidated Balance Sheet
A-1	General Fund Balance Sheet
A-2	Revenues and Expenditures
A-2a	Revenues and Expenditures - Special Schools
A-3	Revenues
A-4	Expenditures
A-5	Receipts and Disbursements

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CONSOLIDATED BALANCE SHEET
6/30/XX
ASSETS

	GENERAL FUND (J-1)	SPECIAL REVENUE FUND(J-2)	CAPITAL PROJECTS FUND(L-1)	DEBT SERVICE FUNDS(S)	ENTER-PRISE (1)FUNDS	TRUST AND AGENCY FUND	STUDENT ACTIVITY FUND	GEN FIXED ASSETS ACCOUNTS	GEN LONG TERM DEBT GROUP	TOTAL (MEMO ONLY)	*PRIOR YEAR
CURRENT ASSETS											
Cash	351,320	41,000	400,000	- 0 -	26,115(a)	184,000	14,843			1,017,278	
Investments	200,000									200,000	
Inventory					4,000					4,000	
ACCOUNTS RECEIVABLE											
Appropriations			1,400,000							1,400,000	
Tuition	15,000									15,000	
P.L. 874 Federal GEN	5,500									5,500	
E.C.I.A. Chapter I		5,000								5,000	
Reimbursement Food Service					172,924					172,924	
Deferred Charge to Future Taxation									1,400,000	1,400,000	
TOTAL CURRENT ASSETS	571,820	46,000	1,800,000	- 0 -	203,039	184,000	14,843		1,400,000	4,219,702	
FIXED ASSETS											
Building & Equip.					180,996			13,075,000		13,255,996(b)	
TOTAL ASSETS	571,820	46,000	1,800,000	- 0 -	384,035	184,000	14,843	13,075,000	1,400,000	17,475,698	

CASH:
FOOD SERVICE 25,343
ATHLETIC FUND 772
26,115(a)

FOOD SERVICE EQUIP. 180,996
SCH. BULINGINGS & EQUIP. 13,075,000
13,255,996(b)

*Prior year totals must be reflected in this column

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CONSOLIDATED BALANCE SHEET
LIABILITIES AND FUND BALANCE

	GENERAL FUND (J-1)	SPECIAL REVENUE FUND J-2	CAPITAL PROJECT FUND(L)	DEBT SERVICE FUND(S)	ENTER-PRISE FUNDS	TRUST AND AGENCY FUNDS	STUDENT ACTIVITY FUNDS	GEN FIXED ASSETS ACC.GROUP	GEN LONG TERM DEBT GROUP	TOTAL (MEMO ONLY)	PRIOR YEAR*
CURRENT LIABILITIES											
Accounts Payable	377,480	18,500			10,000					405,980	
Contracts Payable			200,000							200,000	
Payroll Deductions						184,000				184,000	
Deferred Revenues	44,000									44,000	
TOTAL CURRENT LIABILITIES	421,480	18,500	200,000	- 0 -	10,000	184,000				833,980	
LONG TERM DEBT											
Bonds Payable									1,400,000	1,400,000	
TOTAL LIABILITIES	421,480	18,500	200,000	- 0 -	10,000	184,000			1,400,000	2,233,980	
Reserve for Depreciation					49,367					49,367	
Fixed Assests (Net)					180,996					180,996	
FUND BALANCE	150,340	27,500	1,600,000		143,672(a)		14,843	13,075,000		15,011,355	
TOTAL FUND BALANCE	150,340	27,500	1,600,000	- 0 -	374,035		14,843	13,075,000		15,241,718	
TOTAL LIABILITIES AND BALANCE	571,820	46,000	1,800,000	- 0 -	384,035	184,000	14,843	13,075,000	1,400,000	17,475,698	

FUND BALANCE		
FOOD SERVICE	142,900	
ATHLETIC ASSO.	772	
	143,672(a)	

*Prior year totals must be reflected in this column

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EXHIBIT A-1

GENERAL FUND

BALANCE SHEET 6/30/XX

	ASSETS	
CURRENT ASSETS		
Cash	$351,320	
Investments	200,000	
TOTAL		$551,320
ACCOUNTS RECEIVABLE		
Tuition	$ 15,000	
Federal P.L. 874	5,500	
TOTAL		$ 20,500
TOTAL CURRENT ASSETS		$571,820
CURRENT LIABILITIES		
Accounts Payable	$377,480	
Deferred Revenues	44,000	
TOTAL LIABILITIES		$421,480
FUND BALANCE		$150,340
TOTAL LIABILITIES AND FUND BALANCE		$571,820

EXHIBIT A-2

GENERAL FUND
REVENUES AND EXPENDITURES
6/30/XX

	TOTAL	CURRENT EXPENSE	CAPITAL OUTLAY	SPECIAL SCHOOLS
FREE BALANCE 7/1/XX	$ 447,700	$ 435,000	$ 5,000	$ 7,700
REVENUES:				
STATE AID				
Equalization Aid	$ 581,000	$ 581,000		
Special Education Aid	10,000	10,000		
Transportation Aid	15,000	15,000		
Other	50,000	35.000		$15,000
DISTRICT TAX	$3,025,675	$2,904,575	$75,000	46,100
TUITION	75,000	70,000		5,000
MISCELLANEOUS	1.350	1,300	50	
FEDERAL AID				
Unrestricted	75,500	75,500		
Equipment Aid	12,000		12,000	
TOTAL REVENUE	$3,845,475	$3,692,375	$87,050	$66,100
PRIOR YEAR ORDERS CANCELLED	100		100	
TOTAL FUNDS AVAILABLE	$4,293,325	$4,127,375	$92,150	$73,800
LESS: CONTRACTUAL ORDERS	4,142,985	3,989,985	82,000	71,000
FREE BALANCE 6/30/XX	$ 150,340	$ 137,390	$10,150	$ 2,800

EXHIBIT A-2a

REVENUES AND EXPENDITURES
SPECIAL SCHOOLS
GENERAL FUND

	TOTAL	ACCRED. EVENING	ADULT ED.	VOCATIONAL EVENING	EVENING SCHOOL FOREIGN BORN
FREE BALANCE JULY 1, 19XX	$ 7,700	$ -0-	$ 1,500	$ 5,525	$ 675
REVENUES:					
STATE AID	$15,000	$ -0-		$10,000	$ 5,000
DISTRICT TAX	46,000	22,100	8,000	11,000	5,000
TUITION	5,000		5,000		
TOTAL REVENUES	$66,100	$22,100	$13,000	$21,000	$10,000
TOTAL FUNDS AVAILABLE	$73,800	$22,100	$14,500	$26,525	$10,675
LESS: CONTRACTUAL ORDERS	71,000	21,000	14,000	25,500	10,500
FREE BALANCE 6/30/XX	$ 2,800	$ 1,100	$ 500	$ 1,025	$ 175

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REVENUES
GOVERNMENTAL FUNDS

EXHIBIT A-3

	ANTICIPATED	ADJUSTMENT	REALIZED	EXCESS OR (DEFICIT)
CURRENT EXPENSE				
State Aid	$ 606,000	$	$ 606,000	$
District Taxes	2,944,575		2,944,575	
Tuition	65,000		65,000	
Miscellaneous			1,300	1,300
Federal Appropriation	75,500		75,500	
Free Balance Appropriation	400,000	12,100	412,100	
Total	4,091,075	12,100	4,104,475	1,300
CAPITAL OUTLAY				
State Aid				
District Taxes	75,000		75,000	
Federal Appropriation	10,000		12,000	2,000
Other			50	50
Total	85,000		87,050	2,050
CAPITAL RESERVE FUND - BALANCE APPROPRIATED	55,000	(50,000)	5,500	500
DEBT SERVICE				
State Aid	40,000		40,000	
District Taxes	119,325		119,325	
Other	16,175		16,775	600
Free Balance Appropriation	-0-	1,100	1,100	
Total	175,500	1,100	177,200	600
SPECIAL SCHOOLS AND PROJECTS				
SUMMER SCHOOL				
District Taxes	30,100		30,100	
Tuition	5,000		5,000	
Free Balance Appropriation		1,500	1,500	
Total	35,100	1,500	36,600	

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REVENUES
GOVERNMENTAL FUNDS

EXHIBIT A-3

	ANTICIPATED	ADJUSTMENT	REALIZED	EXCESS OR (DEFICIT)
VOCATIONAL EVENING				
State Aid	$ 10,000	$	$ 10,000	$
District Tax	11,000		11,000	
Free Balance Appropriation		5,525	5,525	
Total	21,000	5,525	26,525	
NONPUBLIC				
State Aid	10,000		10,000	
Free Balance Appropriation		675	675	
Total	10,000	675	10,675	
ECIA		50,000	50,000	
BILINGUAL		115,000	115,000	
GRAND TOTAL	$4,472,675	$135,900	$4,613,025	$4,450

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EXHIBIT A-4
Page 1 of 4

CURRENT EXPENSE	EXPENDITURES				
	APPRO-PRIATIONS	ADDITIONAL APPROPRIATIONS	REVISED APPROPRIATIONS	CONTRACTUAL ORDERS	UNEXPENDED BALANCE OR EXCESS EXPENDED
100 ADMINISTRATION					
110 Salaries	$ 150,300	$	$ 150,300	$ 135,000	$ 15,300
120 Contracted Services	20,700		20,700	13,500	7,200
130 Other	10,775	2,000	12,775	7,900	4,875
TOTAL	181,775	2,000	183,775	156,400	27,375
200 INSTRUCTION					
Salaries					
211 Principals	160,000		160,000	160,000	
212 Supervisors of Instruction	78,000		78,000	78,000	
213 Teachers	2,568,000		2,568,000	2,551,000	17,000
214 Other Instructional Staff	106,000		106,000	106,000	
215 Secretarial and Clerical Ass't	103,000		103,000	103,000	
216 Other Salaries					
220 Textbooks	40,000		40,000	37,500	2,500
230 School Library and Audiovisual Mat.	13,300		13,300	13,000	300
240 Teaching Supplies	15,000		15,000	18,300	3,300*
250 Other Expenses	5,000		5,000	-0-	5,000
TOTAL	3,088,300		3,088,300	3,066,800	21,500
300 ATTENDANCE SERVICES					
310 Salaries	38,000		38,000	32,000	6,000
320 Other Expenses	12,000		12,000	11,500	500
TOTAL	50,000		50,000	43,500	6,500
400 HEALTH SERVICES					
410 Salaries	66,000		66,000	60,000	6,000
420 Other Expenses	5,000		5,000	4,600	400
TOTAL	$ 71,000	$	$ 71,000	$ 64,600	$ 6,400

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EXHIBIT A-4
Page 2 of 4

		EXPENDITURES				
		APPRO-PRIATIONS	ADDITIONAL APPROPRIATIONS	REVISED APPROPRIATIONS	CONTRACTUAL ORDERS	UNEXPENDED BALANCE OR EXCESS EXPEND.*
500	TRANSPORTATION	$	$	$	$	$
510	Salaries					
520	Contracted Services	25,500		25,500	24,000	1,500
530	Replacement - Vehicles					
535	Purchase New Vehicles					
540	Insurance-Pupil Trans.					
545	Curricular Activities					
550	Other-Operation & Maintenance					
	TOTAL	25,500		25,500	24,000	1,500
600	OPERATION					
610	Salaries	315,000		315,000	300,000	15,000
620	Contracted Services					
630	Heat	30,000		30,000	28,000	2,000
640	Utilities	65,000		65,000	63,000	2,000
650	Supplies	30,000		30,000	28,500	1,500
660	Other Expenses	2,000		2,000		2,000
	TOTAL	442,000		442,000	419,500	22,500
700	MAINTENANCE					
710	Salaries	30,000		30,000	20,000	10,000
720	Contracted Services					
730	Replacement of Equipment	20,000		20,000	19,000	1,000
740	Other Expenses	5,000	10,000	15,000	12,000	3,000
	TOTAL	55,000	10,000	65,000	51,000	14,000
800	FIXED CHARGES					
810	Employees Retire. Contributions	110,000		110,000	101,200	8,800
820	Insurance and Judgements	25,000		25,000	19,990	5,010
830	Rental of Land and Buildings	12,000		12,000	12,000	
840	Interest on Current Loans	500		500	495	5
850	Other Fixed Charges		100	100		100
870	Tuition (To Other Districts)	13,000		13,000	13,500	500 *
	TOTAL	$160,500	$ 100	$160,600	$147,185	$13,415

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EXPENDITURES

	APPROPRIATIONS	ADDITIONAL APPROPRIATIONS	REVISED APPROPRIATIONS	CONTRACTUAL ORDERS	UNEXPENDED BALANCE OR EXCESS EXPEND.*
9000 FOOD SERVICE	$	$	$	$	$
9010 Salaries					
9020 Other Expenses					
9030 Expenses to Cover Deficit	5,000		5,000	5,000	
TOTAL	5,000		5,000	5,000	
10000 STUDENT BODY ACTIVITIES					
10010 Salaries					
10020 Other Expenses					
10030 Expenses to Cover Deficit	10,000		10,000	10,000	
TOTAL	10,000		10,000	10,000	
11000 COMMUNITY SERVICES					
11011,11012 Salaries	2,000		2,000	2,000	
11021,11022 Other Expenses					
TOTAL	2,000		2,000	2,000	
SPECIAL PROJECTS					
11111 Salaries					
11121 Other					
TOTAL					
SUB TOTAL (Current Expenses)	4,091,075	12,100	4,103,175	3,989,985	113,190
SPEC. PROJ. (Federal and/or State Sponsored)					
11170 ECIA-P.L. 97-35		50,000	50,000	49,500	500
11180 Compensatory Education		50,000	50,000	40,000	10,000
11190 Bilingual Education		65,000	65,000	48,000	17,000
		165,000	165,000	137,500	27,500

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EXPENDITURES

	APPROPRIATIONS	ADDITIONAL APPROPRIATIONS	REVISED APPROPRIATIONS	CONTRACTUAL ORDERS	UNEXPENDED BALANCE OR EXCESS EXPEND.*
SPECIAL SCHOOLS:					
J-3 Accredited Evening School	$ 22,100	$	$ 22,100	$ 21,000	$ 1,100
J-4 Adult Education	13,000	1,500	14,500	14,000	500
J-5 Regular Evening School					
J-6 Summer School					
J-7 Vocational Evening	21,000	5,525	26,525	25,500	1,025
J-8 Evening School Foreign Born	10,000	675	10,675	10,500	175
TOTAL	66,100	7,700	73,800	71,000	2,800
TOTAL CURRENT EXPENSE	4,157,175	184,800	4,341,975	4,198,485	143,490
1200 CAPITAL OUTLAY:					
1220 Sites	15,000		15,000	15,000	
1230 Buildings	50,000		50,000	45,000	5,000
1240 Equipment	20,000		20,000	22,000	2,000*
TOTAL CAPITAL OUTLAY	85,000		85,000	82,000	3,000
CAPITAL RESERVE:	55,000	(55,000)	-0-	-0-	-0-
1300 DEBT SERVICE:					
1320 Principal	150,000		150,000	150,000	-0-
1330 Interest	25,500	6,100	31,600	31,600	-0-
TOTAL DEBT SERVICE	175,500	6,100	181,600	181,600	
ADDITIONAL BUILDING AID					
Principal					
Interest					
GRAND TOTAL	$4,472,675	$135,900	$4,608,575	$4,462,085	$146,490

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STATEMENT OF RECEIPTS AND DISBURSEMENTS
GOVERNMENTAL ACCOUNTS

EXHIBIT A-5

	TOTAL	CURRENT EXPENSE	CAPITAL OUTLAY	DEBT SERVICE	CAPITAL RESERVE	SP. SCHOOLS PROJECTS & OTHER PROCEEDS	ACCOUNTS PAYABLE
BALANCE JULY 1, 19	$ 534,700	$ 435,000	$ 5,000	$ -0-	855,000	$ 7,700	$ 32,000
RECEIPTS							
State Aid	681,000	606,000		40,000		35,000	
District Taxes (Current Budget)	3,185,000	2,944,575	75,000	119,325		46,100	
Tuition	55,000	55,000					
Federal Funds: ECIA	45,000					45,000	
P.S.E.A.	12,000		12,000				
P.L. 874	70,000	70,000					
Other	95,000					95,000	
Miscellaneous	18,625	1,300	50	16,775	500		
Refunds - Contra	10	10					
Other Proceeds: Petty Cash	1,000					1,000	
Ins. Recovery	100,000					100,000	
Deferred Dist. Taxes	50,000					50,000	
TOTAL RECEIPTS	4,312,635	3,676,885	87,050	176,100	500	372,100	
Transfers				5,500	(5,500)		
Prior Year Cancellation of Orders			100				(100)
TOTAL RECEIPTS AND BALANCES	4,847,335	4,111,885	92,150	181,600	50,000	379,800	31,900

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STATEMENT OF RECEIPTS AND DISBURSEMENTS
GOVERNMENTAL ACCOUNTS

EXHIBIT A-5

	TOTAL	CURRENT EXPENSE	CAPITAL OUTLAY	DEBT SERVICE	CAPITAL RESERVE	SP. SCHOOLS PROJECTS & OTHER PROCEEDS	ACCOUNTS PAYABLE
DISBURSEMENTS							
Budget Appropriation	$4,003,505	$3,628,905	$77,000	$181,600	$50,000	$ 66,000	$
Federal (Special Projects)	119,000					119,000	
Unpaid Prior Year Orders	25,500						25,500
Petty Cash (Contra)	1,000					1,000	
Refunds (Contra)	10	10					
Insurance Recovery (Repairs)	56,000					56,000	
Notes Payable (Current Expense)	50,000					50,000	
TOTAL DISBURSEMENTS	4,255,015	3,628,915	77,000	181,600	50,000	292,000	25,500
BALANCE JUNE 30, 19	592,320	482,970	15,150	-0-	-0-	87,800	6,400
TRANSFERS TO ACCOUNTS PAYABLE		*361,080	*5,000			*23,500	389,580
BALANCE (OVERDRAFT) JUNE 30, 19	592,320	121,890	10,150	-0-	-0-	64,300	395,980
Current Operating	507,320						
Special Projects	41,000						
Insurance Proceeds	44,000						
Total	$ 592,320						

*Deductions

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SECTION B

SPECIAL REVENUE FUND

EXHIBIT

B-1 Balance Sheet

B-2 Revenues and Expenditures

EXHIBIT B-1

SPECIAL REVENUE FUND

BALANCE SHEET 6/30/XX

ASSETS

CURRENT ASSETS	
Cash	$ 41,000
ACCOUNTS RECEIVABLE	
E.C.I.A. Chapter I	5,000
TOTAL CURRENT ASSETS	$ 46,000
CURRENT LIABILITIES	
Accounts Payable	$ 18,500
FUND BALANCE	27,500
TOTAL LIABILITIES AND FUND BALANCE	$ 46,000

EXHIBIT B-2

SPECIAL REVENUE FUND
REVENUES AND EXPENDITURES
6/30/XX

	COMPENSATORY EDUCATION		BILINGUAL EDUCATION		E.C.I.A. CHAPTER I		
	CURRENT F.Y.	PRIOR F.Y.	CURRENT F.Y.	PRIOR F.Y.	CURRENT F.Y.	PRIOR F.Y.	TOTAL
FREE BALANCE 7/1/XX		$ 31,017		$ 500		$ -0-	$ 31,517
REVENUES							
State Aid	$50,000		$ 65,000				$115,000
E.C.I.A. Chapter I-Federal Aid					$50,000		$ 50.000
TOTAL REVENUES	$50,000	$ 31,017	$ 65,000	$ 500	$50,000	$ -0-	$196,517
ADJUSTMENTS							
Reduction for Unexpended Funds		$(31,017)		$(500)	$ -0-	$ -0-	$(31,517)
Prior Year Orders Cancelled		$ 200					$ 200
TOTAL ADJUSTMENTS		$(30,817)		$(500)	$ -0-	$ -0-	$(31,317)
TOTAL FUNDS AVAILABLE	$50,000	$ 200	$ 65,000	$ -0-	$50,000	$ -0-	$165,200
LESS: CONTRACTUAL ORDERS	$40,000	$ -0-	$ 48,000	$ -0-	$49,500	$ -0-	$137,500
FREE BALANCE 6/30/XX	$10,000	$ 200	$ 17,000	-0-	$ 500	$ -0-	$ 27,700

SECTION C

CAPITAL PROJECT FUND

EXHIBIT

C	Balance Sheet
C-1	Cash Receipts and Disbursements
C-2	Accounts Payable Schedule
C-3	Authorized Temporary Notes or Loan Bonds
C-4	Improvement Authorizations Schedule By Projects
C-5	Serial Bonds Schedule
C-6	Memorandum Statement of Bonded Indebtedness Included in Municipal Budget for School Purposes

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CAPITAL PROJECT FUND

COMPARATIVE BALANCE SHEET — EXHIBIT C

ASSETS	JUNE 30, 19XX	JUNE 30, 19XX
Cash	$ 400,000	$
Deferred Charge to Future Taxation:		
Funded	1,400,000	1,000,000
	$1,800,000	$1,000,000
LIABILITIES		
Accounts Payable	$ 200,000	$
Improvement Authoriz. Unexpended	200,000	
Serial Bonds Payable	1,400,000	1,000,000
	$1,800,000	$1,000,000

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS — EXHIBIT C-1

BALANCE JUNE 30, 19XX		$ -0-
RECEIPTS:		
Proceeds from Promissory Notes	$ 26,000	
Sale of Bonds	550,000	
Capital Reserve Fund	50,000	
Total		626,000
TOTAL RECEIPTS AND BALANCES		$ 626,000
DISBURSEMENTS:		
Improvement Authorization Commitments	$ 200,000	
Promissory Note	26,000	
Total		$ 226,000
BALANCE JUNE 30, 19XX		400,000
TOTAL DISBURSEMENTS AND BALANCE		$ 626,000

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ACCOUNTS PAYABLE SCHEDULE — EXHIBIT C-2

VENDOR	AMOUNT
John Jones - General Contractor	$120,000
Thomas Smith - Plumbing	25,000
Robert Martin - Structural Steel	25,000
Gustav Harvy - Heating & Ventilation	15,000
Arnold Ginsberg - Electrical	15,000
Total	$200,000

AUTHORIZED TEMPORARY NOTES OR LOAN BONDS — EXHIBIT C-3

NO.	PURPOSE	AUTH.*	Date of Issue	Orig. Issue	Maturity Date	Rate	Balance 7/1/XX	Issued	Paid	Balance 6/30/XX
1	School Addition	$550,000	11/30/XX	$26,000	5/30/XX	3.5%	$ -0-	$26,000	$26,000	$ -0-

*Amount of temporary notes or loan bonds which may be issued before the five year time limitation, imposed by 18A: 24-3 (as amended), commences.

Memo to Auditor

All notes issued for the same purpose should be grouped together and listed in chronoligical sequence.

IMPROVEMENT AUTHORIZATIONS SCHEDULE BY PROJECTS — EXHIBIT C-4

DESCRIPTION OF IMPROVEMENT	ORIG. DATE	AMOUNT AUTHORIZED	CONTRAC. ORDERS PRIOR 7/1/XX	UNEXP. AUTH. 6/30/XX	CANC. OF PRIOR YEAR ORDERS	IMPROVE. AUTHORIZED 19XX-19XX	CONTRAC. ORDERS 19XX-19XX	UNEXP. AUTHORIZE 6/30/XX
#1 ADDITION TO SCHOOL.....	7/1/XX	$600,000				$600,000	$	
CONSTRUCTION -								
General.....							160,000	
Heating and Ventilation							40,000	
Plumbing.....							80,000	
Electrical.....							30,000	
Structural Steel.....							80,000	
Architect.....							5,000	
Legal Fees.....							5,000	
Furniture and Equipment.....							-0-	
Other Expenses.....							-0-	
						$600,000	$400,000	$200,000
#2 CONSTRUCTION OF HIGH SCHOOL:								
EACH AUTHORIZATION MUST BE SEPARATELY REFLECTED								
#3 ADDITION TO ELEMENTARY SCHOOL:								
EACH AUTHORIZATION MUST BE SEPARATELY REFLECTED								
GRAND TOTAL OF ALL PROJECTS.....		$xxxx	$xxxx	$xxxx		$xxxx	$xxxx	$xxxx

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SERIAL BONDS SCHEDULE

EXHIBIT C-5

NUMBER	PURPOSE	DATE OF ISSUE	ORIG. ISSUE	ANNUAL MATURITIES DATE	ANNUAL MATURITIES AMOUNT	INT. RATE	BALANCE 7/1/XX	ISSUED	PAID	BALANCE 6/30/XX
1900	School 1	8/1/XX	$1,900,000	8/1/XX-XX	$100,000	3.15%	$1,000,000	$	$100,000	$ 900,000
550	School 2	5/1/XX	550,000	5/21/XX-XX	50,000	4.00%		550,000	50,000	500,000
							$1,000,000	$550,000	$150,000	$1,400,000

MEMORANDUM STATEMENT OF BONDED INDEBTEDNESS INCLUDED IN MUNICIPAL BUDGET FOR SCHOOL PURPOSES

EXHIBIT C-6

(Applicable to Type I School Districts Only)

REVENUES		EXPENDITURES	
State School Building Aid	$XXXX	Payment of Serial Bonds	$XXXX
District Taxes	$XXXX	Interest on Bonds	$XXXX
Other Revenues	$XXXX	Sinking Fund Payments	$XXXX
	$XXXX		$XXXX

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SECTION D

DEBT SERVICE FUND

EXHIBIT

D-1 Revenues and Expenditures

EXHIBIT D-1

DEBT SERVICE FUND
REVENUES AND EXPENDITURES
6/30/XX

REVENUES

State Aid	40,000
District Taxes	119,325
Transfer	5,500
Miscellaneous	16,775
TOTAL REVENUE	181,600

EXPENDITURES

Principal	150,000
Interest	31,600
TOTAL EXPENDITURES	181,600
FUND BALANCE	- 0 -

SECTION E

ENTERPRISE FUND

EXHIBIT

FOOD SERVICE FUND

E-1 Balance Sheet

E-2 Statement of Income and Expenses

E-3 Schedule of Net Cash Resources

E-4 Number of Meals Served and Over/Underclaim

ATHLETIC ASSOCIATION

E-5 Receipts and Disbursements

EXHIBIT E-1

ENTERPRISE FUND
FOOD SERVICE
BALANCE SHEET
JUNE 30, 19XX

ASSETS		
CURRENT ASSETS		
Cash		$ 25,342.60
Subsidy reimbursement receivable-		
National School Lunch	$ 141,688.78	
School Breakfast	30,948.14	
Milk	287.26	172,924.18
Inventory		4,000.00
Total-Current Assets		$ 202,266.78
FIXED ASSETS		
Equipment-At cost	$ 230,362.85	
Less: Accumulated depreciation	49,367.00	
Total-Fixed Assets		180,995.85
Total-Assets		$ 383,262.63
RESERVES AND FUND BALANCES		
Accounts Payable		$ 10,000.00
Reserve for depreciation		49,367.00
FUND BALANCES		
Operating fund balance		142,899.78
Net investment in fixed assets		180,995.85
Total-Reserves and Fund Balances		$ 383,262.63

EXHIBIT E-2

FOOD SERVICE FUND

STATEMENT OF INCOME AND EXPENSE

JULY 1, 19XX TO JUNE 30, 19XX

FUND BALANCE - July 1, 19XX			$ 134,230.05
INCOME			
Payment for meals - lunch	$ 28,000.00		
breakfast	4,300.00		
milk	1,400.00		
a la carte	47,000.00	$ 80,700.00	
Federal Reimbursement lunch	$769,039.32		
breakfast	153,530.45		
milk	1,399.96	923,969.73	
Other Revenue		75,000.00	
Total Revenue			$1,079,669.73
EXPENSES			
Food			
Inventory-July 1, 19XX	$ 1,000.00		
Add: purchases	470,000.00		
	$471,000.00		
Less: Inventory June 30, 19XX	2,000.00		
Cost of Food		$ 469,000.00	
Labor		491,000.00	
Other Expenses			
Inventory July 1, 19XX	$ 2,200.00		
Add: Purchases	94,800.00		
	$ 97,000.00		
Less: Inventory June 30, 19XX	2,000.00		
Other Expenses		95,000.00	
Total Expenditures		$1,055,000.00	
Depreciation		16,000.00	
Total-Expense			1,071,000.00
EXCESS OF INCOME OVER EXPENSES			8,669.73
FUND BALANCE - June 30, 19XX			$ 142,899.78
Three months average expenditures equals			$ 263,750.00
Net Cash Resources			$ 188,266.00

EXHIBIT E-3

FOOD SERVICE FUND

SCHEDULE OF NET CASH RESOURCES

JUNE 30, 19XX

Cash	$ 25,342.60
Subsidy Reimbursement Receivable	172,924.18
Total	$198,266.78
Less: Accounts Payable	10,000.00
Net Cash Resources	$188,266.78

EXHIBIT E-4

FOOD SERVICE FUND

NUMBER OF MEALS SERVED AND OVER/UNDERCLAIM

JUNE 30, 19XX

PROGRAM	MEAL CATEGORY	MEALS CLAIMED	MEALS VERIFIED	DIFFERENCE	RATE	(OVER)/UNDER CLAIM
National School Lunch (Regular Rate)	Paid	364,125	363,736	(389)	.168	$ (65.35)
	Reduced	563,000	563,055	55	.9395	51.67
	Free	208,250	208,104	(146)	1.3395	(195.57)
	TOTAL	1,135,375	1,134,895	(480)		$(209.25)
School Breakfast (Regular Rate)	Paid	66,800	66,135	(665)	.0900	$ (59.85)
	Reduced	145,500	145,068	(432)	.3275	(141.48)
	Free	74,300	73,964	(336)	.6275	(210.84)
	TOTAL	286,600	285,167	(1,433)		$(412.17)
Special Milk	Paid	2,800	2,800	-0-	.0925	$ -0-
	Free	9,692	9,692	-0-	Average Cost	-0-
	TOTAL	12,492	12,492	-0-		$ -0-
TOTAL NET OVERCLAIM						$(621.42)

ATHLETIC ASSOCIATION
RECEIPTS AND DISBURSEMENTS

EXHIBIT E-5

BALANCE JULY 1, 19XX		$ 126
RECEIPTS:		
Football	$2,011	
Basketball	250	
Baseball	183	
Donation	9	
Insurance Recovery (Contra)	54	
Excess of Insurance Recovery	29	
Admissions Tax (Contra)	259	
Total Receipts		2,795
TOTAL BALANCE AND RECEIPTS		$2,951
DISBURSEMENTS:		
Football Officials	$ 199	
Basketball Officials	83	
Baseball Officials	51	
Football Equipment	184	
Transportation	512	
Medical Expense	232	
Guarantees	510	
Dues and Entry Fees	65	
Equipment Repairs (Contra)	54	
Admissions Tax (Contra)	259	
Total Disbursements		$2,149
Balance June 30, 19XX		772
TOTAL DISBURSEMENTS AND ENDING BALANCE		$2,921

SECTION F

TRUST AND AGENCY FUND

EXHIBIT

PAYROLL TRUST AND AGENCY ACCOUNTS

F-1 Balance Sheet

NET PAYROLL ACCOUNT

F-2 Receipts and Disbursements

PAYROLL AGENCY ACCOUNT

F-3 Receipts and Disbursements

EXHIBIT F-1

TRUST AND AGENCY FUND

BALANCE SHEET 6/30/XX

ASSETS	
Cash	$ 184,000
TOTAL ASSETS	$ 184,000
LIABILITIES AND FUND BALANCE	
Payroll Deductions Payable	$ 184,000
Fund Balance	-0-
TOTAL LIABILITIES AND FUND BALANCE	$ 184,000

EXHIBIT F-2

NET PAYROLL ACCOUNT
RECEIPTS AND DISBURSEMENTS
6/30/XX

RECEIPTS	
Deposits to Payroll Account	$3,000,277
DISBURSEMENTS	
Checks Drawn to Employees	3,000,277
BALANCE	$ -0-

EXHIBIT F-3

PAYROLL AGENCY ACCOUNT
RECEIPTS AND DISBURSEMENTS

AGENCY	BEG. BAL.	RECEIPTS	DISBURSE.	BALANCE
Withholding Tax.....	$ -0-	$462,500	$410,000	$ 52,500
Social Security.....	-0-	106,500	88,000	18,500
Pension.....	-0-	279,100	251,600	27,500
Hospital & Surgery Insurance.....	-0-	54,400	47,400	7,000
Contributory Insurance.....	-0-	13,500	11,500	2,600
Summer Payment Plan.....	-0-	76,500	-0-	76,500
TOTAL	$ -0-	$992,500	$808,500	$184,000

NOTE: Schedules of Reconciliation of Bank Account are not required.

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SECTION G

STUDENT ACTIVITY FUND

EXHIBIT

G-1	Receipts and Disbursements
G-2	Combined Summary of Internal Funds all Schools

EXHIBIT G-1

STUDENT ACTIVITY FUNDS RECEIPTS AND DISBURSEMENTS

ACTIVITIES	BALANCE JULY 1, 19XX	TRANSFERS FROM	TRANSFERS TO	RECEIPTS	DISBURSEMENTS	BALANCE JUNE 30, 19XX
Band and Music Department.....	$326	$	$	$ 237	$ 360	$ 203
Student Prints.....	84			754	836	2
Girls Association.....	83			322	294	111
Class Fund.....	108		29	15	25	127
Class 19XX.....	29	29				
Class 19XX.....	47			428	427	48
Class 19XX.....	51			35	35	51
Student Government.....	83			49	56	76
Photography Club.....	6			28	32	2
Debating Club.....	13			26	24	15
Art Club.....	7		3	8		18
Stamp Club.....	3					3
Elementary Schools Account 1.....				400	400	
Elementary Schools Account 2.....				380	380	
Ceramics Club.....	89	3		168	167	87
TOTAL.....	$929	$ 32	$32	$2,850	$3,036	$ 743

EXHIBIT G-2

**COMBINED SUMMARY OF INTERNAL FUNDS - ALL SCHOOLS

FUNDS	JULY 1, 19XX	TRANSFERS FROM	TRANSFERS TO	RECEIPTS	DISBURSEMENTS	BALANCE JUNE 30, 19XX
General Organization.....	$ 929	$ 32	$ 32	$ 2,850	$ 3,036	$ 743
Washington Jr. H.S. Fund.....	600	140	140	1,500	1,300	800
Jefferson Elementary School....	100			1,000	800	300
Lincoln Elementary School.....	200			600	800	-0-
Kennedy High School.....	15,000	2,500	2,500	65,000	67,000	13,000
TOTAL.....	$16,829	$2,672	$2,672	$70,950	$72,936	$14,843

** This schedule is not required under one school or fund operation.

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SECTION H

GENERAL FIXED ASSETS ACCOUNT GROUP

EXHIBIT

H-1 Balance Sheet

SECTION I

GENERAL LONG TERM DEBT ACCOUNT GROUP

EXHIBIT

I-1 Balance Sheet

EXHIBIT H-1

GENERAL FIXED ASSETS
ACCOUNT GROUP

BUILDINGS	$12,000,000
EQUIPMENT	1,075,000
TOTAL BUILDINGS AND EQUIPMENT	$13,075,000
FUND BALANCE	
Investment in Fixed Assets	$13,075,000

EXHIBIT I-1

GENERAL LONG TERM DEBT
ACCOUNT GROUP

BALANCE SHEET 6/30/XX

ASSETS	
Deferred Charges to Future Taxation	$1,400,000
LIABILITIES	
Bonds Payable	$1,400,000

SECTION J

SUPPORTING SCHEDULES

EXHIBITS

J-1	Statement of District Tax - Revenues & Receipts
J-2	Statement of Tuition Fees - Revenues & Receipts
J-3	Statement of Refunds Receivable
J-4	Statement of Miscellaneous Revenues
J-5	Promissory Notes (Current Expense)
J-6	ECIA Prior Year Liquidation Schedule
J-7	ECIA Revenues & Expenditures & Summary Schedule
J-8	ECIA Receipts & Disbursements
J-9	Schedule of Federal Grants

STATEMENT OF DISTRICT TAX*

EXHIBIT J-1

	BALANCE JULY 1, 19XX	TAX LEVY	TRANS. TO & FROM	ADJUSTED TAX LEVY	COLLECTED 19XX-XX	BALANCE JUNE 30, 19XX
ACCOUNTS						
Current Expense	$ -0-	$2,944,575	$ -0-	$2,944,575	$2,944,575	$ -0-
Capital Outlay	-0-	75,000	-0-	75,000	75,000	-0-
Debt Service	-0-	119,325	-0-	119,325	119,325	-0-
Adult Education	-0-	8,000	-0-	8,000	8,000	-0-
Accredited Evening School	-0-	22,100	-0-	22,100	22,100	-0-
Vocational Evening	-0-	11,000	-0-	11,000	11,000	-0-
Foreign Born	-0-	5,000	-0-	5,000	5,000	-0-
	$ -0-	$3,185,000	$ -0-	$3,185,000	$3,185,000	$ -0-

STATEMENT OF TUITION FEES*

EXHIBIT J-2

	BALANCE JULY 1, 19XX	CANCELLED	TUITIONS	COLLECTED	BALANCE JUNE 30, 19XX
Township of_____	$ -0-	$	$65,000	$55,000	$10,000
Individuals_____	-0-		5,000		5,000
	$ -0-	$	$70,000	$55,000	$15,000

* These schedules are not required in the event of no beginning or ending balances

EXHIBIT J-3

SAMPLE
STATEMENT OF REFUNDS RECEIVABLE

	Balance July 1	Accrued	Cancelled	Received	Balance June 30
Current Expenses					
Teachers' Salaries		$1,880.		$1,880.	
Library Materials		127.		127.	
Teaching Supplies		34.		34.	
Pupil Transportation		78.		78.	
TOTAL		$2,119.		$2,119.	

EXHIBIT J-4

STATEMENT OF MISCELLANEOUS REVENUES

	ACCOUNT	REVENUE	RECEIPTS
Sale of Furniture.....	J	$ 1,000	$ 1,000
Rent.....	J	100	100
Premium on Bonds.....	J	200	200
Total.....		$ 1,300	$ 1,300
Prior Year Purchase Refund.....	L-1	$ 50	$ 50
Interest Income.....	L-2	500	500
Total.....		$ 550	$ 550
Interest From Investments.....	S	$16,175	$16,175
Accrued Interest.....	S	600	600
Total.....		$16,775	$16,775
GRAND TOTAL.....		$18,625	$18,625

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EXHIBIT J-5

PROMISSORY NOTES - CURRENT EXPENSE

NO.	PURPOSE	DATE OF ISSUE	ORIGINAL ISSUE	MATURITY DATE	INT. RATE	BALANCE 7/1/XX	ISSUED	PAID	BALANCE 6/30/XX
1	School 1	1/1/XX	$50,000	1/1/XX	3.2%	$50,000	$ -0-	$50,000	$ -0-

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ECIA PRIOR YEAR LIQUIDATION SCHEDULE
JUNE 30, 19XX

EXHIBIT J-6

	TOTAL	CHAPTER 1 PROJ. 1	PRIOR YEAR CARRY-OVER	CHAPTER 2
UNCOMMITTED BALANCE JUNE 30, 19XX.....	$XXXX	$XXXX	$XXXX	$ XXXX
ADD:				
Order Cancellations and Overcommitments.....	XXXX	XXXX	XXXX	XXXX
LESS:				
Undercommitment Adjustments.....	XXX	XXX		
Refund or Reallotment of August 31 Uncommitted Funds to State Department of Education.....	XXXX	XXX	-0-	XXX
Adjusted Balance.....	$XXXX	$XXXX	$XXXX	$ XXXX

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ECIA REVENUES AND EXPENDITURES
FOR THE OPERATIONS JULY 1, 19XX THROUGH JUNE 30, 19XX

EXHIBIT J-7

	TOTAL	CHAPTER 1 PROJECT 1	CHAPTER 1 PROJECT 2	CHAPTER 2 PROJECT 1	CHAPTER 2 PROJECT 2
Local Project Appropriation	$40,000	$13,000	$10,000	$12,000	$ 5,000
Transfers and Adjustments (Deductions)		1,000	(1,000)		
Cooperative Districts Appropriation	10,000	10,000			
Total Project Appropriation June 30, 19XX	$50,000	$24,000	$ 9,000	$12,000	$ 5,000
EXPENDITURES:					
Administration	$ 1,500	$ 1,000	$ 500	$	$
INSTRUCTION:					
Salaries	24,500	15,500	6,000		3,000
Library Books	11,800			11,800	
Supplies	6,000	3,000	1,000		2,000
Operation of Plant	800	600	200		
Maintenance of Plant	1,200	200	1,000		
Equipment					
Initial Equipment	3,700	3,700			
TOTAL EXPENDED JUNE 30, 19XX	$49,500	$24,000	$ 8,700	$11,800	$ 5,000
BALANCE JUNE 30, 19XX	$ 500	$ -0-	$ 300	$ 200	$ -0-

SUMMARY SCHEDULE ECIA FUNDS

	TOTAL	CHAPTER 1 PROJECT 1	CHAPTER 1 PROJECT 2	CHAPTER 2 PROJECT 1	CHAPTER 2 PROJECT 2
Cash Receipts	$45,000	$19,000	$ 9,000	$12,000	$ 5,000
Receivable	5,000	5,000	-0-	-0-	-0-
Total	$50,000	$24,000	$ 9,000	$12,000	$ 5,000
Cash Disbursements	$39,000	$21,000	$ 4,700	$ 8,300	$ 5,000
Payable	10,500	3,000	4,000	3,500	-0-
BALANCE JUNE 30, 19XX	500		300	200	
Total	$50,000	$24,000	$ 9,000	$12,000	$ 5,000

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ECIA RECEIPTS AND DISBURSEMENTS
FOR OPERATIONS JULY 1, 19XX THROUGH JUNE 30, 19XX

EXHIBIT J-8

	TOTAL	CHAPTER 1 PROJECT 1	CHAPTER 1 PROJECT 2	CHAPTER 2 PROJECT 1	CHAPTER 2 PROJECT 2	ACCOUNTS PAYABLE
Receipts:						
Funds Received;						
State Agency						
October, 19XX	$10,000	$	$ 3,000	$ 7,000	$	$
January, 19XX	10,000	5,000		5,000		
May, 19XX	10,000	3,000	7,000			
Federal Agency						
November, 19XX	5,000				5,000	
Cooperating Districts						
November, 19XX	10,000	10,000				
TOTAL RECEIPTS	45,000	18,000	10,000	12,000	5,000	
Transfers		1,000	(1,000)			
TOTAL RECEIPTS AND TRANSFERS	$45,000	$19,000	$ 9,000	$12,000	$ 5,000	$
DISBURSEMENTS:						
Cash Disbursed to June 30, 19XX	39,000	21,000	4,700	8,300	5,000	
CASH BALANCE JUNE 30, 19XX	6,000	(2,000)	4,300	3,700	-0-	
TRANS TO ACCTS. PAYABLE (DEDUCTIONS)		(3,000)	(4,000)	(3,500)		10,500
CASH BALANCE JUNE 30, 19XX	$ 6,000	$(5,000)	$ 300	200	$	$ 10,500

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SCHEDULE J-9

SCHEDULE OF FEDERAL GRANTS

STATE ADMINISTERED FEDERAL PROGRAM	AMOUNT
A. Education Consolidation and Improvement Act	
Chapter 1 - Educationally Deprived Children	XX
Chapter 2 - Block Grant	XX
B. Child Nutrition Programs	
Child Care Food Program	XX
National School Lunch Program	XX
School Breakfast Program	XX
Summer Food Service Program for Children	XX
Special Milk Program for Children	XX
C. Education for Handicapped Children Programs - Title VIB	
Education for all Handicapped Children	XX
D. Nutrition Education and Training Programs	XX
E. School Assistance in Federally Affected Areas Programs	XX
F. Vocational Education and Career Preparation Programs	
Consumer and Homemaking Education	XX
Vocational Education - Training and Development Programs	XX
G. Adult Education	XX

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APPENDIX A

AUDIT REQUIREMENTS

1. This Attachment establishes audit requirements for State and local governments, and Indian tribal governments that receive Federal assistance. It provides for independent audits of financial operations, including compliance with certain provisions of Federal law and regulation. The requirements are established to ensure that audits are made on an organization-wide basis, rather than on a grant-by-grant basis. Such audits are to determine whether (a) financial operations are conducted properly, (b) the financial statements are presented fairly, (c) the organization has complied with laws and regulations affecting the expenditure of Federal funds, (d) internal procedures have been established to meet the objectives of federally assisted programs, and (e) financial reports to the Federal Government contain accurate and reliable information. Except where specifically required by law, no additional requirements for audit will be imposed unless approved by the Office of Management and Budget.

2. Definitions.

   "Cognizant agency" means the Federal agency that is assigned audit responsibility for a particular recipient organization by the Office of Management and Budget.

   "Recipient organization" means a State department, a local government, an Indian tribal government, or a subdivision of such entities, that receives Federal assistance. It does not include State and local institutions of higher education or hospitals, which are covered by Circular A-110.

3. State and local governments and Indian tribal governments shall use their own procedures to arrange for independent audits, and to prescribe the scope of audits, provided that the audits comply with the requirements set forth below. Where contracts are awarded for audit services, the contracts shall include a reference to this Attachment.

4. The provisions of this Attachment do not limit the authority of Federal agencies to make audits of recipient organizations. However, if independent audits arranged for by recipients meet the requirements prescribed below, all Federal agencies shall rely on them, and any additional audit work shall build upon the work already done.

5. Audits shall be made in accordance with the General Accounting Office Standards for Audit of Governmental Organizations, Programs, Activities and Functions, the Guidelines for Financial and Compliance Audits of Federally Assisted Programs, any compliance supplements approved by OMB, and generally accepted auditing standards established by the American Institute of Certified Public Accountants.

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6. Audits will include, at a minimum, an examination of the systems of internal control, systems established to ensure compliance with laws and regulations affecting the expenditure of Federal funds, financial transactions and accounts, and financial statements and reports of recipient organizations. These examinations are to determine whether:

   a. There is effective control and proper accounting for revenues, expenditures, assets, and liabilities.

   b. The financial statements are presented fairly in accordance with generally accepted accounting principles.

   c. The Federal financial reports (including Financial Status Reports, Cash Reports, and claims for advances and reimbursements) contain accurate and reliable financial data, and are presented in accordance with the terms of applicable agreements, and in accordance with Attachment H of this Circular.

   d. Federal funds are being expended in accordance with the terms of applicable agreements and those provisions of Federal law or regulations that could have a material effect on the financial statements or on the awards tested.

7. In order to accomplish the purpose set forth above, a representative number of charges to Federal awards shall be tested. The test shall be representative of (1) the universe of Federal awards received, and (2) all cost categories that materially affect the award. The test is to determine whether the charges:

   a. Are necessary and reasonable for the proper administration of the program.

   b. Conform to any limitations or exclusions in the award.

   c. Were given consistent accounting treatment and applied uniformly to both federally assisted and other activities of the recipient.

   d. Were net of applicable credits.

   e. Did not include costs properly chargeable to other federally assisted programs.

   f. Were properly recorded (i.e., correct amount, date) and supported by source documentation.

   g. Were approved in advance, if subject to prior approval in accordance with Circular 74-4.

   h. Were incurred in accordance with competitive purchasing procedures if covered by Attachment O of this Circular.

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i. Were allocated equitably to benefiting activities, including non-Federal activities.

8. Audits usually will be made annually, but not less frequently than every two years.

9. If the auditor becomes aware of irregularities in the recipient organization, the auditor shall promptly notify the cognizant agency and recipient management officials above the level of involvement. Irregularities include such matters as conflicts of interest, falsification of records or reports, and misappropriation of funds or other assets.

10. The audit report shall include:

a. Financial statements, including footnotes, of the recipient organization.

b. The auditors' comments on the financial statements which should:

(1) Identify the statements examined, and the period covered.

(2) Identify the various programs under which the organization received Federal funds, and the amount of the awards received.

(3) State that the audit was done in accordance with the standards in paragraph 5.

(4) Express an opinion as to whether the financial statements are fairly presented in accordance with generally accepted accounting principles. If an unqualified opinion cannot be expressed, state the nature of the qualification.

c. The auditors' comments on compliance and internal control should:

(1) Include comments on weaknesses in noncompliance with the systems of internal control, separately identifying material weaknesses.

(2) Identify the nature and impact of any noted instances of noncompliance with the terms of agreements and those provisions of Federal law or regulations that could have a material effect on the financial statements and reports.

(3) Contain an expression of positive assurance with respect to compliance with requirements for tested items, and negative assurance for untested items.

d. Comments on the accuracy and completeness of financial reports and claims for advances or reimbursement to Federal agencies.

e. Comments on corrective action taken or planned by the recipient.

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11. Work papers and reports shall be retained for a minimum of three years from the date of the audit report unless the auditor is notified in writing by the cognizant agency of the need to extend the retention period. The audit workpapers shall be made available upon request to the cognizant agency or its designees and the General Accounting Office or its designees.

12. The Office of Management and Budget will work with Federal agencies and State and local governments to assure that recipient audits are made in accordance with the standards set forth in paragraph 5.

13. The Office of Management and Budget will designate cognizant agencies for major recipient organizations.

14. The cognizant agency shall have the following responsibilities:

    a. Obtain or make quality assessment reviews of the work of non-Federal audit organizations, and provide the results to other interested audit agencies. (If a non-Federal audit organization is responsible for audits of recipients that have different cognizant audit agencies, a single quality assessment review should be arranged.)

    b. Assure that all audit reports of recipients that affect federally assisted programs are received, reviewed, and distributed to appropriate Federal audit officials. These officials will be responsible for distributing audit reports to their program officials.

    c. Whenever significant inadequacies in an audit are disclosed, the recipient organization will be advised and the auditor will be called upon to make corrective action. If corrective action is not taken, the cognizant agency shall notify the recipient organization and Federal awarding agencies of the facts and its recommendation. Major inadequacies or repetitive substandard performance of independent auditors shall be referred to appropriate professional bodies.

    d. Assure that statisfactory audit coverage is provided in a timely manner and in accordance with the provisions of this Attachment.

    e. Provide technical advice and act as a liaison between Federal agencies, independent auditors, and recipient organizations.

    f. Maintain a follow-up system on audit findings and investigative matters to assure that audit findings are resolved.

    g. Inform other affected audit agencies of irregularities uncovered. The audit agencies, in turn, shall inform all appropriate officials in their agencies. State or local government law enforcement and prosecuting authorities shall also be informed of irregularities within their jurisdiction.

(No. A-102)

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15. Recipients shall require subrecipients that are State and local governments or Indian tribal governments to adopt the requirements in paragraph 1 through 11 above. The recipient shall ensure that the subrecipient audit reports are received as required, and shall submit the reports to the cognizant agency. The cognizant agency will have the responsibility for these reports described in paragraph 14.

16. Small business concerns and business concerns owned and controlled by socially and economically disadvantaged individuals shall have the maximum practicable opportunity to participate in the performance of contracts awarded with Federal funds. Grantees of Federal funds shall take the following affirmative action to further this goal:

    a. Assure that small audit firms and audit firms owned and controlled by socially and economically disadvantaged individuals as defined in P.L. 95-507 are used to the fullest extent practicable.

    b. Make information on forthcoming opportunities available, and arrange time frames for the audit so as to encourage and facilitate participation by small or disadvantaged audit firms.

    c. Consider in the contract process whether firms competing for larger audits intend to subcontract with small or disadvantaged firms.

    d. Encourage contracting with small or disadvantaged audit firms which have traditionally audited government programs, and in such cases where this is not possible, assure that these firms are given consideration for audit subcontracting opportunities.

    e. Encourage contracting with consortiums of small or disadvantaged audit firms as described in paragraph a when a contract is too large for an individual small or disadvantaged audit firm.

    f. Use the services and assistance, as appropriate, of the Small Business Administration, the Minority Business Development Agency of the Department of Commerce and the Community Services Administration in the Solicitation and Utilization of small or disadvantaged audit firms.

(No. A-102)

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CHAPTER 5[1]/

COMPLIANCE WITH LEGAL AND REGULATORY REQUIREMENTS

GAO's third examination and evaluation standard for governmental auditing is: "A review is to be made of compliance with legal and regulatory requirements." In governmental auditing, compliance with pertinent laws and regulations is particularly important because government organizations, functions, programs, or activities are subject to laws and have more specific rules and regulations than are usually applicable to private organizations.

The auditor is responsible for determining whether the organization, program, function, or activity under audit has complied with laws and regulations which may have a material effect on the grantee's financial position.

Thus, during the financial audit, the auditor is to test the transactions and operations of the audited organization, program, function, or activity, to determine whether that entity is in conformance with significant compliance requirements that can have a material effect upon the grantee's financial position. Specifically, the auditor should establish that the audited entity has not incurred important unrecorded liabilities--contingent or actual--through failure to comply with, or through violation of, pertinent laws and regulations. Three of the most important requirements are recipient eligibility, coverage of services and matching requirements. If funds are used to provide services to ineligible recipients and/or to provide services not included in the grant award, or if matching requirements are not met, the total amount of the award may have to be returned to the grantor agency.

While these requirements may not cover all significant compliance requirements, they do include some of the most important ones and their verification at least would indicate that funds were used for their intended purpose and matching funds were provided. Other requirements that may be applicable include maintenance of effort, indirect cost rate determination and allocation, and cost principles. Eligibility and matching requirements for all federal grants can be found in the "Catalog of Federal Domestic Assistance," which is available from the Superintendent of Documents, U. S. Government Printing Office, Washington, DC. The catalog is updated semiannually. Test procedures for auditing costs and expenses (direct and indirect) are included in this guide starting on Page 32.

To assure that important unrecorded liabilities do not exist, the auditor should (1) ascertain the significant compliance requirements for each material grant, (2) determine that the grantee has established a system to ensure that those requirements are complied with, and (3) test individual transactions to determine whether the system is working as designed.

1/Excerpt from General Accounting Office, Guidelines for Financial and Compliance Audits of Federally Assisted Programs, February 1980

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UNIFORM REQUIREMENTS FOR GRANTS TO STATE AND LOCAL GOVERNMENTS

This document specifies the major compliance requirements that must be considered in an organization-wide audit of state and local government recipients of Federal assistance. It supplements Attachment P, "Audit Requirements," to OMB Circular A-102, "Uniform Requirements for Grants to State and Local Governments."

The document is divided into two parts. The first part contains those generally applicable requirements that must be considered in an organizationwide financial and compliance audit. Generally applicable requirements are national policies prescribed by statute, Executive order, or other authoritative source and which apply to the assistance programs of two or more agencies. While there are approximately sixty such national policy requirements, the requirements included in this document are those that if noncompliance occurs, the grantee's financial statements could be materially affected.

Of particular note is the inclusion of the requirement for periodic Federal financial reports, as specified in Attachment "H" to Circular A-102, Treasury Circular 1075, or elsewhere. The auditor's tests of compliance with this requirement, for those grant programs where such requirements exist, provides the Federal Government with the necessary assurances as to the completeness and reliability of such reports.

The second part of the document provides the program specific requirements for the 60 programs that provide over 90 percent of the Federal aid to state and local governments. For each program, the following is provided: Objectives of the program; a brief description of how the program operates; and the major compliance requirements, including a Code of Federal Regulations (CFR) or other statutory reference where additional information for the requirement can be obtained. The requirements are organized into five categories: types of service allowed or unallowed, eligibility; matching level of effort, and/or earmarking requirements; reporting requirements; and special tests and provisions. While there may be other requirements for these programs, the auditor is not required to perform tests for compliance with those requirements. Other means are used to obtain assurance of compliance with those requirements. Also, Federal agencies have determined that, in general, noncompliance with those requirements would not materially affect the grantee's financial statements.

Each requirement is accompanied by suggested audit procedures that can be used to test for compliance. These are not the only procedures an auditor can use. Nor are they mandatory procedures. Auditors may apply professional judgment and use any procedure that they choose to decide the extent of reviews and tests performed and to determine such things as adequacy, timeliness, etc., as long as it supports his or her comments regarding compliance or noncompliance with the specified requirements for the items tested.

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Since some programs entail pass-through funds from one level of government to another, some of the requirements are for the government that receives the funds initially and makes the allocations to others; some are for the government that receives the funds ultimately and provides the services; and some are for both. The auditor should be able to determine the applicable procedures in each instance.

The specific compliance requirements and suggested audit procedures for each program have been provided by the department or agency that administers the program. Auditors must read the statute or Code of Federal Regulations and/or statute to obtain a complete understanding of the compliance requirements. Also, the requirements are as of the publication date of this revision of the Compliance Supplement. Specific requirements may change periodically, and auditors should be alert to this possibility through their contacts with the cognizant agency, the auditee organization and by other means.

Questions regarding a requirement, including requests for information about changes in requirements, should be addressed to the administering agency directly or through a cognizant audit agency. Requirements and suggested audit procedures for smaller grant programs not contained herein can also be obtained from the administering department or agency, directly or through the cognizant audit agency.

GENERAL REQUIREMENTS

Several statutory and regulatory requirements are applicable to all or most Federal assistance programs. The following are those requirements that involve significant national policy and for which noncompliance could have a material impact on an organization's financial statements. Accordingly, they should be included as part of every audit of state, local and Tribal governments that encompasses Federal financial assistance.

I. POLITICAL ACTIVITY

Compliance Requirement. Federal funds cannot be used for partisan political activity of any kind by any person or organization involved in the administration of federally-assisted programs. (Hatch Act (5 U.S.C. 1501-1508) and Intergovernmental Personnel Act of 1970 as amended by Title VI of Civil Service Reform Act (P.L. 95-454 Section 4728)).

Suggested Audit Procedures

- Test the expenditure and related records for indications of lobbying activities, publications, or other materials intended for influencing legislation or similar type costs.
- Test the personnel and payroll records, and identify persons whose responsibilities or activities include political activity.
- Test whether the above costs, if any exist, are charged directly or indirectly, to federally-assisted programs.

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II. DAVIS-BACON ACT

Compliance Requirement. When required by the Federal grant program legislation, all laborers and mechanics employed by contractors or subcontractors to work on construction projects financed by Federal assistance must be paid wages not less than those established for the locality of the project by the Secretary of Labor. (40 Stat 1494, Mar. 3, 1921, Chap. 411, 40 U.S.C. 276A-176A-5).

Suggested Audit Procedures

- Identify the programs involving construction activities.
- Review selected construction contracts and subcontracts and determine whether they contain provisions requiring the payment of "prevailing" wages.
- Review the government's system for monitoring applicable contractors and subcontractors with respect to payment of prevailing wages and evaluate for adequacy.1/
- Review the monitoring system for contracts for selected programs and determine whether there is adherence to the prescribed procedures.
- For governments who have not developed a system, or whose system is not operating effectively:
  - Obtain the "local" DOL wage determination from the recipient, the architect/engineer (A/E) managing the project, or DOL.
  - Obtain payroll lists from contractors and review wages paid.
  - Determine whether wages paid conform to the prevailing wages.

1/ For purposes of this supplement, adequacy can be interpreted as providing a reasonable assurance that the system or procedures, if followed, will result in the intended event or action occurring.

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III. CIVIL RIGHTS

Compliance Requirement. No person shall, on the grounds of race, color, national origin, age, or handicap, be excluded from participation in or be subjected to discriminaton in any program or activity funded, in whole or in part, by Federal funds. Discrimination on the basis of sex or religion is also prohibited in some Federal programs. (Age--42 U.S.C. 6101 et seq; Race--42 U.S.C. 2000d; Handicap--29 U.S.C. 794).

Suggested Audit Procedures

. Determine whether the governmental unit has announced a formal policy of nondiscrimination.

. For recipients employing 15 or more persons, ascertain whether a person has been designated to oversee civil rights compliance.

. Ascertain from the grant agreement whether any of the programs contain prohibitions against discrimination on the basis of sex or religion.

. Ascertain the number of complaints filed with Federal, state and/or local agencies responsible for ensuring nondiscrimination in government programs during the fiscal year, the status of unresolved complaints or investigations, and the actions taken on resolved complaints or completed investigations.

. Ascertain whether any of the programs contain prohibitions against discrimination in employment; for those programs (1) review the annual report filed with the Equal Employment Opportunity Commission (EEOC), if any, and (2) ascertain the number of complaints filed during the fiscal year, the status of unresolved complaints and investigations, and the actions taken on resolved complaints or completed investigations.

. Determine whether facilities financed by Federal funds that are required to be located in a nondiscriminatory manner are so located.

. Obtain representation and/or attorney letters to determine if any civil rights suits have been adjudicated or are pending.

VI. CASH MANAGEMENT

Compliance Requirement. Grantee financial management systems shall include procedures to minimize the time elapsed between the transfer of funds from the U.S. Treasury and the disbursement of funds by the grantee.

Advances made by primary recipients to secondary recipients shall conform substantially to the same standards of timing and amount as

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apply to advances by Federal agencies to primary recipient organizations. (OMB Circular A-102, Attachment G; Intergovernmental Cooperation Act of 1968, P.O. 90-577 (Sec. 403), as amended, by P.O. 96-470, Title I, Sec. 101(b)

Suggested Audit Procedures

- Review the government's cash forecasting process and evaluate for adequacy.
- Review the government's system for requesting Federal funds and evaluate whether it is adequate to keep Federal cash disbursements limited to the government's immediate needs.
- For selected grant programs, determine dates and amounts for selected advances, drawdowns and other receipts of Federal funds and compare to the dates the funds were disbursed and/or checks were presented to the banks for payments.
- For the same program, evaluate the size of the balances in relation to the program's needs.
- Review the government's system for monitoring advances and payment requests by secondary recipients. Evaluate whether the system is sufficient to limit payments to amounts needed to meet immediate cash requirements.
- Review selected cash reports submitted by subrecipients and determine if the reports show large amounts of excess cash. If they do, ascertain why.

V. RELOCATION ASSISTANCE AND REAL PROPERTY ACQUISITION

Compliance Requirements. Federal aid programs may require the acquisition of property by a public agency and subsequent displacement of households and businesses. Grant recipients acquiring property in the administration of Federal aid must carry out certain actions systematically, e.g., have property appraised in presence of owner, review appraisals, set price and negotiate settlements. Similarly, when displacements (relocations) are involved, the recipient must, for example, provide assistance systematically in locating replacement housing, assure that it meets acceptable standards and maintain records on all acquisitions and displacements (Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (URA) (P.L. 91-646).

Suggested Audit Procedures

- Ascertain whether the recipient is administering a Federal or federally-assisted program that involves the acquisition of property or the displacement of households or businesses by a public agency.
- Review the organization's system for compliance with relocation assistance and real property acquisition requirements and evaluate for adequacy.

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- Review the monitoring system for relocation and acquisition activity for selected programs and determine whether there is adherence to the prescribed procedures.

VI. FEDERAL FINANCIAL REPORTS

Compliance Requirement. Most Federal programs require the periodic submission of financial reports that fall within one or more of the following three categories. The specific requirement for each grant program is presented in the Reporting Requirements (III-D) section for that program. The suggested audit procedures are provided below to facilitiate the requirement for the auditor to comment on completeness and accuracy required by Attachment P. (OMB Circular A-102, "Uniform Requirements for Grants to State and Local Governments;" and Treasury Circular 1075, "Withdrawal of Cash from the Treasury for Advances under Federal Grant and Other Programs.")

1. OMB Circular A-102, Attachment H, lists four required financial reports that apply to most of the programs described in this document.

   - Financial Status Report (SF 269) - Reports status of funds for all nonconstruction programs.

   - Request for Advance or Reimbursement (SF 270) - Requests funds for nonconstruction programs when advance letter of credit or predetermined advance payments are not used.

   - Outlay Report and Request for Reimbursement for Construction Programs (SF 271) - Requests reimbursements and reports status of funds for construction programs.

   - Federal Cash Transactions (SF 272) - Reports cash transactions and balances for grantees receiving cash by letter of credit or Treasury checks.

2. Treasury Circular 1075 lists two alternative cash management reports, one of which applies to each program financed through letters-of-credit:

   - Request for Payment on Letter of Credit and Status of Funds Report (SF 1893).

   - Payment Voucher on Letter of Credit (TFS 5401).

3. Certain Federal agencies have received OMB approval to adapt the above reports or require other financial reports to meet their particular program needs.

Suggested Audit Procedures

- Review the procedures for preparing the Federal financial reports and evaluate for adequacy.

- Sample Federal financial reports for each material program and review for completeness and timeliness of submission.

- Trace data to the supporting documentation, i.e., worksheets, ledgers, etc.

- Review adjustments made to the general ledger amounts in the report affecting Federal programs and evaluate for propriety.

NATIONAL SCHOOL BREAKFAST PROGRAM -- 10.553

NATIONAL SCHOOL LUNCH PROGRAM -- 10.555

I. PROGRAM OBJECTIVES

The objectives of the National School Breakfast and the National School Lunch Programs are to: (1) assist States, through cash grants and food donations, in making breakfast and lunch available to school children, and (2) encourage the domestic consumption of agricultural commodities and other foods.

II. PROGRAM PROCEDURES

The programs are offered by the Food and Nutrition Service (FNS) to the states where, typically, they are administered by the state's department of education. FNS makes payments to states for breakfasts and lunches served to eligible children based on national average payment factors multiplied by the number of meals served. The programs are operated at the local level by a school food authority (SFA), which is reimbursed by the state at rates prescribed by the state. States also receive commodities based on the projected levels of service and distribute them to the SFAs.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. TYPES OF SERVICES ALLOWED OR UNALLOWED

1. Compliance Requirement

Eligible meals must meet the minimum meal pattern requirements. (7 CFR 210.10 and 220.8)

Suggested Audit Procedures

- Review the system for determining the content and quantity of eligible meals and evaluate for adequacy.
- Test the manner and frequency with which the procedures are applied.

B. ELIGIBILITY

1. Compliance Requirement

- The State must prescribe eligibility standards in accordance with federally-published guidelines, and participants must meet family-size income standards for free and reduced price meals. (7 CFR 245.1, 245.11, 245.13)
- The SFA must approve proper applications submitted in accordance with these standards. (7 CFR 245.6(b))

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Suggested Audit Procedures (School Food Authority)

- Review the SFA procedures for complying with the published eligibility guidelines and evaluate for adequacy.

- Review selected case files and determine whether there was adherence to the prescribed procedures. Verify the conclusions regarding eligibility.

- Determine the numbers of free and reduced price meals claimed for reimbursement in selected schools and determine whether it exceeds the number of approved applications.

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CHILD CARE FOOD PROGRAM

10.558

I. PROGRAM OBJECTIVES

The objective of the Child Care Food Program is to assist states to initiate, maintain, or expand nonprofit food service programs for children in nonresidential institutions that provide child care.

II. PROGRAM PROCEDURES

Funds and donated food are provided to the states for disbursement to eligible public and private organizations such as day care centers and settlement houses, as specified in agreements between the state and the local provider, or to the institutions directly if the state does not participate, on the basis of the number of meals served and the statutory reimbursement rates.

III. COMPLIANCE REQUIRFMENTS AND SUGGESTED AUDIT PROCEDURES

A. TYPES OF SERVICES ALLOWED OR UNALLOWED

1. Compliance Requirement

A participating institution or facility may claim for reimbursement only the meals and administrative costs approved in its agreement with the state agency. (7 CFR 226.11; 226.12; 226.13; 226.14)

Suggested Audit Procedure

- Review agreements and the records for selected institutions and determine whether there is adherence to the prescribed system.

2. Compliance Requirement

Meals claimed for reimbursement must: (a) meet minimum meal component requirements prescribed by the Secretary; (b) be supported by accurate meal counts and records; (c) be supported by valid free and reduced price meal information if the meal is claimed as either free or reduced; and (d) be served to children eligible to participate based on certain age requirements. (7 CFR 226.2, 226.15(e), 226.20(a))

Suggested Audit Procedure

- Review selected reimbursement claims and determine whether there is adherence to the prescribed system.

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DEPARTMENT OF HEALTH AND HUMAN SERVICES

HEAD START

13.600

I. PROGRAM OBJECTIVES

The objectives of the Head Start Program are to provide comprehensive health, educational, nutritional, social and other services primarily to economically disadvantaged preschool children and their families and to involve parents in activities with their children so that the children will attain overall social competence. Parents also participate in various decision-making processes related to operation of the program.

II. PROGRAM PROCEDURES

Grants are made by the Administration for Children, Youth and Families (ACYF) to community action agencies, limited purpose agencies, and units of local government who operate the program and/or assign the activity to one or more delegate agencies identified in the grant application. Each grantee and delegate agency generally has several locations where the program is operated.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. TYPES OF SERVICES ALLOWED OR UNALLOWED

1. Compliance Requirement

Allowable services include health (medical, dental, nutrition, and mental health), education, social services, parent involvement, use of volunteers, and career development for teachers, nonprofessional aides, and other staff members (P.L. 97-35, Title VI, Subchapter B), (45 CFR 1304 B , C, D, E)

Suggested Audit Procedure

. Test expenditure and related records.

B. ELIGIBILITY

1. Compliance Requirement

Enrollment and attendance levels must adhere to the levels specified in the Notice of Financial Assistance Award. (HHS Enrollment and Attendance Policies in Head Start, Federal Register, Vol. 44, No. 214, pp. 63478-63481)

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Suggested Audit Procedures

- Review Notice of Financial Assistance Award.
- Examine enrollment and attendance records and compare enrollment to levels in the award.

2. Compliance Requirements

- At least ninety percent of the enrollees must come from families whose income is below the official Federal poverty guidelines or who are receiving public assistance. (45 CFR 1305.4 and 1305.2(b)(2))
- The enrollment must consist of children between the age of three and the age of compulsory school attendance unless the grant award provides otherwise. (45 CFR 1305.3)

Suggested Audit Procedures

- Review the system used to determine eligibility and evaluate for adequacy.
- Review selected particpant and applicant files and determine adherence to the prescribed system.

C. MATCHING, LEVEL OF EFFORT, AND/OR EARMARKING REQUIREMENTS

1. Compliance Requirement

The Head Start grantee is required to contribute 20 percent of the cost of the program through cash or in-kind contributions, unless a lesser amount has been approved by HHS. (45 CFR 1301.20, .21)

Suggested Audit Procedures

- Ascertain total cost of program.
- Test financial records and determine amount provided by grantee from other than Federal resources.

D. SPECIAL TESTS AND PROVISIONS

1. Compliance Requirement

There must be evidence of compliance with state and local licensing facility standards and with Head Start performance standards. (45 CFR 1304.2-3)

Suggested Audit Procedure

- Examine selected certificates of occupancy or similar documents and note any restrictions.
- Determine whether the actual use conforms to the permitted use.

COMPREHENSIVE EMPLOYMENT AND TRAINING ACT PROGRAM

17.232

I. PROGRAM OBJECTIVE

The objectives of the Comprehensive Employment and Training Act Program (CETA) are to: (1) provide job training and employment opportunities for economically disadvantaged, unemployed, and underemployed persons and, (2) assure that training and other services lead to increased earnings and enhanced self-sufficiency.

II. PROGRAM PROCEDURES

Funds are provided, upon submission of an application and in accordance with a pre-defined formula, to states, local governments, tribal governments and groups servicing special target populations such as migrant and seasonal farmworkers, for training, work experience, and other supportive service activities provided either directly to eligible participants or indirectly through subgrants and contracts with other organizations.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. TYPES OF SERVICES ALLOWED AND UNALLOWED

1. Compliance Requirement

Funds can be expended for wage and allowance payments to participants, training, outreach and screening services for applicants, employment and training services (e.g., orientation to the work environment, counseling) and supportive services such as health and medical, child care, transportation, and temporary shelter. (20 DFR 676.25, 676.26)

Suggested Audit Procedure

. Test expenditure and related records.

2. Compliance Requirement

No more than 20 percent of the total allocation for each annual plan other than Title II-D, IV-YCCIP and VI, and the special Governors' grants, shall be expended on administrative costs; no more than 10 percent for Title II-D prime sponsors; no more than 15 percent for Title VI; and no more than 5% for Title IV YCCIP. (20 CFR 676.40-2(a), 677.58(a), 677.40, 678.8(b)(1)(iii) and 680.113(a))

Suggested Audit Procedures

. Ascertain the total allocation for each title.

. Test the financial records and ascertain the amount expended on administrative costs.

B. ELIGIBILITY

1. Compliance Requirement

Recipients and subrecipients must establish an eligibility determination and verification system that includes a complete review of the completeness and consistency of the information on the application or intake form and the accuracy of the eligibility determination as soon after enrollment as possible, but no later than 30 days; followed by a quarterly verification of the documentation for a sample of participants enrolled during the quarter. (20 CFR 675.5, 20 CFR 676.75-3)

Suggested Audit Procedures

- Review the eligibility determination and verification system and evaluate for adequacy.
- Review selected files and determine whether there was a review within 30 days of enrollment, and the applications are complete and signed.
- Review the quarterly verification and determine whether the sample size appeared sufficient, sufficient verification steps were performed, and actions were taken to correct deficiencies.

C. SPECIAL TESTS AND PROVISIONS

1. Compliance Requirement

Prime sponsors must establish a monitoring unit that is independent, not accountable to any unit being monitored, reports to a high enough level of management (e.g., the CETA director), and which periodically makes on-site visits and monitors and reviews program data, program activities, and management practices supported by CETA funds. (20 CFR 676.75-2)

Suggested Audit Procedures

- Determine whether an independent monitoring unit has been established.
- Review the activities of the monitoring unit by reviewing several cases or reports and determining whether there has been follow-up action consistent with the monitoring unit's recommendation.

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DEPARTMENT OF EDUCATION

BILINGUAL EDUCATION

84.003

I. PROGRAM OBJECTIVES

The objective of the Bilingual Education Program is to build state and local capacity to conduct programs of Bilingual Education in elementary and secondary schools, including activities at the preschool level, designed to enable children of limited English proficiency (LEP) to achieve competence in the English language and to progress effectively through the school system.

II. PROGRAM PROCEDURES

Grants are made to local education agencies (LEAs) and others upon submission to and approval of applications by the Department of Education. The programs, which may be demonstration, basic, desegregation support, or for development of materials, are conducted by the grantees.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. TYPES OF SERVICES ALLOWED OR UNALLOWED

1. Compliance Requirement

The funds can be expended only for the types of services specified in the grant award, including: classroom instruction; training of parents and project participants; planning and curriculum development; classroom instruction in English and the child's native, first, or other language, to the extent necessary to improve the English language skills of a child with limited English proficiency, and to the extent necessary to allow such child to progress effectively through the school system. (34 CFR 74, 75, and 501)

Suggested Audit Procedures

- Review grant award and ascertain allowable services.
- Review expenditure and related records.

2. Compliance Requirement

Before submitting a grant application, each applicant is required to conduct an assessment of the children in the schools and grades to be served by the project to identify children of limited English proficiency. At least sixty percent of the children participating in the program must be of limited English proficiency, i.e., have sufficient difficulty speaking, understanding, reading, or writing English to deny them the

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opportunity to learn successully in classrooms in which the language of instruction is English. (34 CFR 501.24, 500.4, 501.40, and 501.45)

Suggested Audit Procedures

- Ascertain the assessment procedures and criteria established by the LEA for determining LEP and evaluate for adequacy.
- Review actual procedures and compare to established procedures.
- Ascertain total number of children participating in program.
- Calculate portion of participating children that have been identified as LEP.

C. MATCHING, LEVEL OF EFFORT, AND/OR EARMARKING REQUIREMENTS

1. Compliance Requirement

Federal funds cannot be used to supplant state or local funds that would have been expended for special programs for children of limited English proficiency, unless the LEA is under court order to carry out an approved plan of services for LEP children. (20 USC 3231, Sec. 721(b)(3G); 34 CFR 501.46)

Suggested Audit Procedures

- Review and evaluate the adequacy of the LEA's system to determine that Bilingual Education Program (BEP) funds supplement and do not supplant state and local funds.
- Determine the average per pupil expenditure of state and local funds for special programs for LEP children at each grade level in which a BEP project is being conducted.
- Determine the total per-pupil expenditure for children participating in BEP projects and ascertain whether it is greater than the average per-pupil expenditure of state and local funds for LEP children in special programs by an amount that is no less than the Federal share of per-pupil cost of the BEP projects.

EDUCATION CONSOLIDATION AND IMPROVEMENT ACT OF 1981

CHAPTER 1--FINANCIAL ASSISTANCE TO MEET SPECIAL EDUCATIONAL NEEDS OF DISADVANTAGED CHILDREN--PROGRAMS OPERATED BY LOCAL EDUCATION AGENCIES

84.010

I. PROGRAM OBJECTIVES

The objective of Chapter 1, Part A of the Educational Consolidation and Improvement Act of 1981 is to provide funding to local educational agencies (LEAs) to meet the special needs of educationally deprived children in attendance areas with high concentrations of children from low-income families.

II. PROGRAM PROCEDURES

Funds are provided to each state educational agency (SEA) for allocation to LEAs, based on a statutory formula. Funds are then granted to LEAs that have currently approved project applications on file with the SEA describing the projects to be undertaken with the Chapter 1 funds.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

In addition to Federal statutory requirements, each SEA has the authority, in accordance with state law, to issue rules consistent with Federal statutes and regulations. These rules should be reviewed prior to beginning the audit.

A. TYPES OF SERVICES ALLOWED OR UNALLOWED

1. Compliance Requirement

An LEA may use Chapter 1 funds only to meet the costs of project activities that are designed and implemented to meet the special educational needs of educationally deprived children identified under section 556(b)(2) of Chapter 1 are included in an application approved by an SEA, and comply with all applicable Chapter 1 requirements. (Public Law 97-35, sec. 555(c); 34 CFR 200.52)

Suggested Audit Procedures

- Review the LEA's approved project application.
- Review expenditure records and supporting documentation.

B. ELIGIBILITY

1. Compliance Requirement (for audit of LEA)

Chapter 1 projects shall be conducted in attendance areas of LEAs having the highest concentrations of low-income children. If an LEA has a uniformly high concentration of low-income children, the projects may be in all attendance areas. The projects may be designed to use part of the funds to provide services that will help all educationally deprived, low-income children served by the LEA. (P.L. 97-35, sec. 556(b)(1) and 34 CFR 200.49)

Suggested Audit Procedures (for audit of LEA)

- Review the system used to determine attendance areas having the highest concentrations of children from the low-income families, and evaluate for adequacy.
- Identify the source of the demographic information and consider its reliability.
- Determine the schools in which Chapter 1 projects are being provided, and whether the children receiving the Chapter 1 services are educationally deprived children from attendance areas having the highest concentrations of low-income families.

C. MATCHING, LEVEL OF EFFORT, AND/OR EARMARKING REQUIREMENTS

1. Compliance Requirements (for audit of LEA)

- An LEA may use Chapter 1 funds only to supplement, and to the extent practical, increase the level of funds that would, in the absence of Chapter 1 funds, be made available from non-Federal sources for the education of pupils participating in Chapter 1 projects.
- An LEA may not use Chapter 1 funds to supplant funds from non-Federal sources. (Chapter 1 Regulations 200.62)
- An LEA may exclude state and local funds expended for carrying out special programs to meet the educational needs of educationally deprived children that are consistent with the purposes of Chapter 1. (P.L. 97-35, Sec. 558(b); 34 CFR 200.62)

Suggested Audit Procedures (for audit of LEA)

- Review financial and pupil records and determine the expenditures for children participating in Chapter 1 projects.
- Ascertain the amount financed with Federal funds.

- Ascertain whether the expenditures for Chapter 1 pupils are greater than the expenditures of state and local funds by an amount that is no less than the cost of the Chapter 1 projects.

- Identify services provided to all children with state or local funds.

- Determine whether Chapter 1 funds were used to provide services that supplement or were additional to services that would be provided with state and local funds.

D. SPECIAL TESTS AND PROVISIONS

1. Compliance Requirements (for audit of LEA)

- An LEA may receive Chapter 1 funds only if state and local funds will be used to provide in project areas services which, taken as a whole, are at least comparable to services, taken as a whole, being provided in areas not receiving Chapter 1 funds.

- If all school attendance areas are designated as Chapter 1 project areas, an LEA may receive Chapter 1 funds only if state and local funds are used to provide services which, taken as a whole, are substantially comparable in each project area.

- An LEA may exclude state and local funds for special programs to meet the educational needs of educationally deprived children that are consistent with the purposes of Chapter 1. (P.L. 97-35, sec. 558(c); 34 CPR 200.63)

Suggested Audit Procedures (for audit of LEA)

- Review the systems by which the LEA determines and selects the levels of service among the different schools, and evaluate for adequacy.

- Examine information maintained by the LEA to determine comparability, e.g., district-wide salary schedule; policies to ensure equivalence among schools in teachers, administrators, and auxiliary personnel; policies to ensure equivalence among schools in curriculum materials and instructional supplies.

- Review the application of the system.

2. Compliance Requirement

The LEA's Chapter 1 project must be based on an annual assessment of educational needs that identifies educationally deprived children in all eligible attendance areas, permits selection of those children who have the greatest need for special assistance, and determines the needs of participating children with sufficient specificity to ensure concentration on those needs. (P.L. 97-35, sec. 556(b)(2); 34 CFR 200.50)

Suggested Audit Procedures (for audit of LEA)

- Identify methods used to assess needs and ascertain whether they are considered suitable.
- Determine whether assessments are performed with the required frequency.
- Review the manner in which the LEA applies the results of the assessment to make sure that only educationally deprived children are served.

3. Compliance Requirements

- Except where prohibited by state law, in which case the Secretary invokes a bypass to have the services performed directly, the LEA shall provide educationally deprived children residing in a project area of the LEA who are enrolled in private elementary and secondary schools with educational services and arrangements as will assure participation on an equitable basis of these children.
- If the LEA decides to serve educationally deprived, low-income children under Section 556(b)(1)(C) of Chapter 1, the LEA must also provide Chapter 1 services to educationally deprived, low-income children in private schools as will assure participation on an equitable basis of those children. (P.L. 97-35, sec. 557(a) and (b); 34 CFR 200.70-200.75)

Suggested Audit Procedures

- Review procedures for determining numbers and needs of educationally deprived children in private schools and evaluate for adequacy.
- Ascertain Chapter 1 services provided to such children and determine whether those services have been provided on an equitable basis.

4. Compliance Requirement

An SEA or LEA may obligate Chapter 1 funds only during the fiscal year for which the funds were appropriated and during the succeeding fiscal year, i.e., commit funds from a specifically identified fiscal year, according to state law or practice, to the support of specific programmatic or administrative activities. (P.L. 97-35, Sec. 596(b); Sec. 412(b) of GEPA; 34 CFR 200.64)

Suggested Audit Procedures

- Test expenditure and related records and note dates for obligation of grant funds.
- Test older unliquidated obligations for currency.

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5. Compliance Requirement

The SEA and LEA must retain records, for audit and evaluation, for five years after the project or until audit resolution is complete. (P.L. 97-35, Sec. 437(a), Sec. 555(d); Sec. 556(b) of GEPA; 34 CFR 200.56)

Suggested Audit Procedures

- Review procedures for records retention.
- Review correspondence and determine whether there were any instances of required records not being available.

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CHAPTER I - MIGRANT EDUCATION
BASIC STATE FORMULA GRANT PROGRAM

84.011

I. PROGRAM OBJECTIVES

The objectives of the Migrant Education Basic State Formula Grant Program are to: (1) establish or improve programs designed to meet the special educational needs of migratory children of migratory agricultural workers or migratory fishers; and (2) enable state educational agencies to coordinate their state migrant education programs and local projects with similar programs and projects in other states, including the transfer of school records and other information about migratory children.

II. PROGRAM PROCEDURES

Funds are provided to state educational agencies, which may conduct program services and activities directly, provide subgrants to local educational agencies, or make special arrangements and contracts with other public or nonprofit private agencies.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. TYPES OF SERVICES ALLOWED OR UNALLOWED

1. Compliance Requirement

Funds can be used by a SEA only to meet the special educational needs of migrant children administered in accordance with the program application. Funds can be used by a LEA or other operating agency only in accordance with the project application. (P.L. 97-35, Sec. 555; 20 U.S.C. 3804)

Suggested Audit Procedures (for audit of LEA)

. Review project application.

. Test financial records and supporting documentation.

B. ELIGIBILITY

1. Compliance Requirement

Services are limited to a current or former migratory child, i.e., a child whose parent or guardian is a migratory agricultural worker or a migratory fisher, and who has moved within the past 12 months from one school district to another in order that the child, the child's guardian, or a member of the child's immediate family could obtain temporary or seasonal employment in an agricultural or fishing activity; or a child who was a current migratory child within the past five years, lives in an area serviced by a migrant education project,

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and whose parent or guardian consents to consideration as a migratory child. (20 U.S.C. 2761 and 2762)

Suggested Audit Procedures

- Review the procedures used to determine that a participating child is a current or former migratory child and evaluate for adequacy.
- Review selected records and determine whether there is adherence to the prescribed procedures.

C. MATCHING, LEVEL OF EFFORT, AND/OR EARMARKING REQUIREMENT

1. Compliance Requirement

The combined fiscal effort per student or the aggregate expenditures of the LEA from state and local funds for free, public education in the LEA in the preceding year must be at least 90 percent of the combined fiscal effort per student or the aggregate expenditures or per-pupil expenditures in the LEA, respectively, the second preceding year unless specifically waived by the SEA. The waiver is for one year only. (34 CFR 201.30); Sec. 558(a), 20 USC 3807(a))

Suggested Audit Procedures (for audit of LEA)

- Ascertain whether the SEA waived the expenditure requirement.
- Review financial and related records for the second preceding and first preceding year and determine total expenditures.
- If total expenditures are not adequate, compute the second preceding and first preceding years per pupil expenditures.

2. Compliance Requirement

An agency receiving migrant funds may use funds only to supplement, and to the extent practical, increase the level of funds that would, in the absence of migrant funds, be made available from non-Federal sources for the education of pupils participating in migrant projects. (34 CFR 204.32; Sec. 558(b), 20 USC 3807(b))

Suggested Audit Procedures

- Review financial and pupil records and determine the average per pupil expenditures of state and local funds for each grant level in which a migratory education project is being conducted.

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- Ascertain whether the per-pupil expenditures for children participating in migratory education projects is greater than the average per-pupil expenditure of State and local funds by an amount that is no less than the per-pupil costs of the migratory education projects.

- Identify servides provided to all children.

- Determine source of funding for those services.

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ASSISTANCE TO STATES FOR EDUCATION OF
HANDICAPPED CHILDREN

84.027

I. PROGRAM OBJECTIVES

The objective of the Assistance to States for Education of Handicapped Children program is to assist states in providing a free, appropriate public education to all handicapped children.

II. PROGRAM PROCEDURE

Grants are made to states, following submission of an acceptable three year plan, based on a certified count of handicapped children receiving special education and related services. The SEA, in turn, funds local educational agencies that submit applications to the SEA for approval.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. ELIGIBILITY

1. Compliance Requirement

Only children determined to be mentally retarded, hard of hearing, deaf, speech impaired, visually handicapped, seriously emotionally disturbed, orthopedically impaired, other health impaired, specific learning disabled, deaf-blind, or multihandicapped, and who, because of these impairments, need special education and related services, are eligible for participation in this program and may be counted. (34 CFR 300.5(a), 300.520-.543, 750-754)

Suggested Audit Procedures

- For audits of LEAs, review procedures for determining participant eligibility and evaluate for adequacy.
- Review selected pupil records and determine whether prescribed procedures were followed.

B. MATCHING, LEVEL OF EFFORT, AND/OR EARMARKING REQUIREMENTS

1. Compliance Requirement

Except for the state set-aside, Federal funds cannot be used to supplant state or local funds. (34 CFR 300.230)

Suggested Audit Procedure

- Ascertain expenditure of state (or local) funds in prior and current years for education of handicapped children.

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SCHOOL ASSISTANCE IN FEDERALLY AFFECTED AREAS

84.041

I. PROGRAM OBJECTIVES

The objectives of the School Assistance in Federally Affected Areas Program (Impact Aid/Disaster Aid) are to: (1) provide financial assistance to local educational agencies whose enrollments or revenue availability are adversely affected by Federal activities, e.g., Federal acquisition of real property, sudden and substantial increase in school attendance, children residing on tax free Federal property or who reside with a parent employed on tax free property owned by the Federal government; and (2) provide financial assistance when a major disaster is declared by the President.

II. PROGRAM PROCEDURES

Funds are provided to local educational agencies that submit applications through their state educational agency, on the basis of the application of a statutorally-defined formula to data supplied by the LEA.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. TYPES OF SERVICES ALLOWED OR UNALLOWED

1. Compliance Requirements

- Unless otherwise prohibited by law, there are generally no unallowed services for impact aid.

- Funds provided for major disasters may be used for preventive work, use of applicant-owned equipment, work performed by applicant's maintenance employees, utilities, equipment replacement, off-site work, trees and seeding, architectural and engineering fees, damage of school facilities during replacement, damage to school facilities during disaster recovery, administrative expenses, temporary facilities, equipment for temporary facilities, and resources. (34 CFR 220.2-220.4)

Suggested Audit Procedures

- Examine Federal Review Team's estimate of costs.

- Test expenditure and related records.

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VOCATIONAL EDUCATION - BASIC GRANTS TO STATES

84.048

I. PROGRAM OBJECTIVES

The objectives of the Vocational Education Basic Grants to States Program is to assist states to plan and conduct vocational education programs for persons of all ages who desire and need education and training for employment.

II. PROGRAM PROCEDURES

Funds are provided to state boards for vocational education upon submission of a general application and an annual program plan and accountability report, in accordance with a statutory formula. The state boards, in turn, make grants to eligible subrecipients, operate programs directly, or contract for services.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. TYPES OF SERVICES ALLOWED OR UNALLOWED

1. Compliance Requirement

Grant monies can be used only for vocational education programs, energy education programs, work-study programs; cooperative vocational education programs, construction of area vocational education school facilities, stipends, placement services for students who successfully completed vocational education programs, industrial arts programs, support services for women, day care services for children of vocational education students, construction and operation of residential vocational schools, vocational training through arrangements with private vocational training institutions, and administrative costs (34 CFR 400.502)

Suggested Audit Procedure

. Test expenditure and related records.

B. MATCHING, LEVEL OF EFFORT, AND/OR EARMARKING REQUIREMENTS

1. Compliance Requirements

. The LEA must maintain its fiscal effort similarly. (34 CFR 400.326)

. A postsecondary educational institution must maintain fiscal effort similarly. (34 CFR 400.329)

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Suggested Audit Procedures

- Review preceding and second preceding year financial records.
- Review preceding and second preceding year pupil records.

2. Compliance Requirement

Funds may be used only to supplement, not to supplant, funds from non-Federal sources. (34 CFR 400.141(f)(6))

Suggested Audit Procedures

- Review financial and pupil records and determine the expenditures for children participating in programs financed by vocational education-basic grants to states program funds.
- Ascertain the amount financed with Federal funds.
- Ascertain whether the expenditures for children participating in the programs financed with the vocational education-basic grants to states program funds are greater than the expenditures of state and local funds by an amount that is no less than the costs of the projects funded through the vocational education-basic grants to state program.
- Identify vocational education services provided to all children with state or local funds.
- Determine whether vocational education-basic grants to states program funds were used to provide services that supplement or were additional to services that would be provided with state and local funds.

VOCATIONAL EDUCATION -- PROGRAM IMPROVEMENT
AND SUPPORTIVE SERVICES

84.050

I. PROGRAM OBJECTIVES

The objective of the Vocational Education Program and Improvement and Supportive Services Program is to assist states in improving their programs of vocational education by the support of research, exemplary and innovative programs, and curriculum development programs.

II. PROGRAM PROCEDURES

Funds are provided to state boards of vocational education, upon submission of a general application, a five year plan, and an annual program plan and accountability report, in accordance with a statutory formula. The boards operate the programs directly and make grants and negotiate contracts with eligible sub-recipients, i.e., local education agencies (LEA), post-secondary institutions and nonprofit institutions.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

A. TYPES OF SERVICES ALLOWED OR UNALLOWED

1. Compliance Requirement

Grant monies can be used only for research, exemplary and innovative programs, curriculum development, vocational guidance and counseling, vocational education, personnel training, grants to overcome sex bias and sex stereotyping, and state and local administration. (34 CFR 400.701)

Suggested Audit Procedure

. Test expenditure and related records.

B. MATCHING, LEVEL OF EFFORT, AND/OR EARMARKING REQUIREMENTS

1. Compliance Requirements

. The LEA must maintain its fiscal effort similarly. (34 CFR 400.326)

. A postsecondary educational institution must maintain fiscal effort similarly. (34 CFR 400.329)

Suggested Audit Procedures

. Review preceding and second preceding year financial records.

. Review preceding and second preceding year pupil records.

2. Compliance Requirement

Funds may be used only to supplement, not to supplant, funds from non-Federal sources. (34 CFR 400.141(f)(6))

Suggested Audit Procedures

- Review financial and pupil records and determine the expenditures for children participating in programs financed by vocational education-program improvement and supportive services funds.
- Ascertain the amount financed by Federal funds.
- Ascertain whether expenditures for children participating in the programs financed by the vocational education-program improvement and supportive services program funds are greater than the expenditures of state and local funds by an amount that is no less than the costs of the projects funded through the vocational education-program improvement and supportive services program.
- Identify vocational education services provided to all children with state or local funds.
- Determine whether vocational education-program improvement and supportive services funds were used to provide services that supplement or were in addition to services that would be provided with state or local funds.

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EDUCATION CONSOLIDATION AND IMPROVEMENT ACT OF 1981

CHAPTER 2 - CONSOLIDATION OF FEDERAL PROGRAMS FOR ELEMENTARY AND SECONDARY EDUCATION BLOCK GRANT

84.151

I. PROGRAM OBJECTIVES

The objectives of Chapter 2 of the Education Consolidation and Improvement Act of 1981 (ECIA) are to provide funds to states: (1) to be used for the same purposes as the antecedent programs, but in accordance with the educational needs and priorities of state and local educational agencies, as determined by those agencies, and (2) to improve elementary and secondary education for children attending both public and private schools, but to do so in a manner designed to reduce greatly the administrative and paperwork burden imposed on schools.

II. PROGRAM PROCEDURES

Funds are obtained by the states following submission of an application to the Secretary of Education. The state educational agency (SEA) distributes at least 80 percent of the funds to local educational agencies (LEAs) that have filed an application that meets certain requirements. These funds are distributed to LEAs within the state in accordance with the relative enrollments in public and nonpublic schools within the LEAs, adjusted by criteria approved by the Secretary, to provide higher per pupil allocations to those LEAs having the greatest numbers or percentages of children whose education imposes a higher than average cost per pupil. The LEAs have complete discretion, subject only to the legal requirements, in determining how they will expend the funds.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

In addition to Federal statutory requirements, each SEA has the authority, in accordance with state law, to issue rules consistent with Federal statutes and regulations. These rules should be reviewed prior to beginning the audit.

A. TYPES OF SERVICES ALLOWED OR UNALLOWED

1. Compliance Requirements

- Funds may be distributed only to LEAs that submit applications that: (1) show the allocation of funds among: Subchapter A - (basic skills development), Subchapter B - (educational improvement and support services), and Subchapter C - (special projects); (2) provide assurance of compliance with Chapter 2 of the Act; (3) agree to keep adequate records and provide

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information for evaluation and audit; and (4) provide for systematic consultation with parents, teachers and administrative staff and other groups identified by the LEA. (P.L. 97-35, Sec. 566(a))

- The SEA and LEA can expend funds only for the authorized purposes listed above. (P.L. 97-35, Sec. 571, 576, 581; 34 CFR 298.10).

Suggested Audit Procedure

- Test expenditure and related records.

B. SPECIAL TESTS AND PROVISIONS

1. Compliance Requirement

SEAs and LEAs may use Chapter 2 funds only to supplement, and in no case supplant, non-Federal funds that would, in the absence of Chapter 2 funds, be made available. (P.L. 97-35, Sec. 585(b); (34 CFR 298.13)

Suggested Audit Procedures

(For audit of LEAs)

- Review the programs generated with Chapter 2 funds and identify the services provided.

- Identify the services that would have been provided with only state and local funds.

- Determine whether Chapter 2 funds were used to provide services that would supplement or were additional to those that would have been provided with state and local funds.

2. Compliance Requirement

Except where prohibited by state law, in which case the Secretary invokes a bypass to have the services performed directly, the LEA shall provide children enrolled in private elementary and secondary schools in that LEA with secular, neutral, and nonideological services, materials, and equipment or other benefits as will assure equitable (as compared to children enrolled in public schools) participation of such private school children in the purposes and benefits of Chapter 2. If an SEA conducts instructional or personnel training programs, it must comply with these requirements as if it were an LEA. (P.L. 97-35, Sec. 586; 34 CFR 298.21-198.28)

Suggested Audit Procedures

- Review procedues for determining number and needs of children in private schools and evaluate for adequacy.

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- Ascertain Chapter 2 services provided to such children and determine whether they can be considered equitable in relation to the services provided public school children.

3. Compliance Requirement

An SEA or LEA may obligate Chapter 2 funds only during the fiscal year for which the funds were appropriated and during the succeeding fiscal year, i.e., commit funds from a specifically identified fiscal year, according to state law or practice, to the support of specific programmatic or administrative activities. (P.L. 97-35, Sec. 596(b), Sec. 412(b) of GEPA; 34 CFR 298.14)

Suggested Audit Procedures

- Test expenditure and related records and note dates for obligation of grant funds.

- Test older unliquidated obligations for currency.

4. Compliance Requirement

The SEA and LEA must retain records, for audit and evaluation, for five years after the project or until audit resolution is complete. (P.L. 97-35, Sec. 564(a)(6); P.L. 95-561, Sec. 1231(c); 20 U.S.C. 1232f (a); 34 CFR 298.1)

Suggested Audit Procedures

- Review procedures for records retention.

- Review correspondence and determine whether there were any instances of required records not being available.

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APPENDIX B

SCHOOL NUTRITION PROGRAM REQUIREMENTS

Beginning with the school year 1982-83, the separate audit requirement for School Nutrition Programs has been eliminated. Instead, reporting requirements for School Nutrition Program funds are to be incorporated into the District's general operational audit. Please refer to the sample format of the School Food Service contained within this Audit Program for required Financial Statements & Notes to Financial Statements.

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The following clarification is provided to Revision of School Food Service Accountability Requirements:

1. The interim regulations eliminate the term operating balance and instead uses the term "net cash resources."

   > Net cash resources mean all monies, as determined in accordance with the State Agency's established accounting system, that are available to or have accrued to a School Food Authority's nonprofit school food service at any given time, less cash payable. Such monies may include but are not limited to cash on hand, cash receivable, earnings on investments, cash on deposit and the value of stocks, bonds or other negotiable securities.

   Net cash resources may not exceed three months average expenditures. In the event that net cash resources exceed three months average expenditures for the School Food Authority's non-profit school food service, the State Agency may require the School Food Authority to reduce children's prices, improve food quality or take other actions designed to improve the nonprofit school food service. (Ref. 7CFR 210:15)

2. Two essential test checks which must be completed in the conduct of an audit to ensure that the reimbursement received can be substantiated are:

   (a) Review of eligibility documentation to determine accuracy and the substantiation of the number of meals claimed in the free and reduced categories.

   (b) Review of meal count records or daily summary sheets to ensure that meals claimed as per reimbursement vouchers agree with the number served.

   If these test-checks do not support number of meals claimed exceptions should be noted and over/underclaims should be identified in the exhibits and in the narrative. (Exclude over/underclaim identified during previous school year.)

3. Expenditures of school food services revenues should be limited to allowable school food service direct and indirect costs. Review vendor invoices and verify labor costs. Inventory records on food and supply items were currently maintained. Review time sheets and verify labor costs. Are payroll records maintained?

4. Auditors should verify that provisions in the management contract have been complied with; if not cite exception.

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5. Changes in federal/state regulations for the Child Nutrition Programs.

   (a) SPECIAL MILK PROGRAM: The purpose of this program is to give children milk to drink. Thus, special payments are made to schools that serve milk only. Free milk may be provided to eligible needy children.

   (b) NONFOOD ASSISTANCE PROGRAM: This program has been deleted.

   (c) MAXIMUM CHARGE FOR MILK: New Jersey Administrative Code 6:79-1.9 (a) has been deleted. Therefore, the auditor is not required to report on this phase of the program.

The following memos were sent to district personnel during fiscal year 1983 and should be reviewed prior to auditing the Child Nutrition Programs.

1. Fiscal Year 1983 Approval For School Nutrition Programs.

2. Agreement for School Nutrition Programs.

3. Policy for Free and Reduced Price Meals or Free Milk.

4. Guidelines for Determining Eligibility for Free and Reduced Price Meals or Free Milk.

5. Instructions and Samples for: Letters to Parents, Applications, Public Announcements.

6. Child Nutrition Program Reimbursement Rates, Maximum Meal Prices Application Packets, Additional Funds.

7. Severe Need Rates for Reimbursement for School Breakfast Programs Fiscal Year 1983.

8. Public School Districts Exempt from 2 cent Cut in National School Lunch Program Reimbursement Rates.

9. School Food Service Reimbursement.

10. School Nutrition Program Audits, Management Company Contracts, Revision of School Food Service Accountability Requirements.

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ACCOUNT CLASSIFICATION DESCRIPTIONS

This chapter contains descriptions of the categories for the revenue, expenditure, and balance sheet accounts described in chapter 5. As the fund codes are applicable to all three types of accounts, they are described separately at the outset.

FUND CLASSIFICATIONS

Code	Descriptions
1	General Fund. To account for all financial resources of the district, except those required to be accounted for in another fund.
2	Special Revenue Funds. To account for the proceeds of specific revenue sources that are legally restricted to expenditure for specific purposes. The various sources should be identified within their fund by use of the Project/Reporting code.
3	Capital Projects Funds. To account for financial resources to be used for the acquisition for construction of major capital facilities (other than those of proprietary funds and trust funds). The most common source of revenue in this fund would be the sale of bonds. A separate fund may be used for each capital project or one fund may be used supplemented by the Project/Reporting code.
4	Debt Service Funds. To account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.
5	Enterprise Funds. To account for operations that are financed and operated in a manner similar to private business enterprises where the stated intent is that the costs (expenses, including depreciation and indirect costs) of providing goods or services to the students or general public on a continuing basis are financed or recovered primarily through user charges. Enterprise funds are also used to account for operations where the school board or state regulatory agency has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Some examples of enterprise funds might include the food service program, the bookstore operation, the athletic stadium and the community swimming pool.
6	Trust and Agency Funds. To account for assets held in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Trust funds would include non-expendable trust funds, expendable trust funds, and pension trust funds.

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Agency funds could include a central payroll account, funds for a parent-teacher organization, and teacher organization.

7 Student Activity Funds. Funds which are owned, operated, and managed by the student body under the guidance and direction of adults or a staff member for educational recreational, and cultural purposes. Although the board of education has the ultimate responsibility for student activity funds, in most cases they are not school district funds. If the board of education subsidizes a portion of a student activity fund, that fund should be included in the regular budget of that district. Some examples of activity funds include:

1. Homeroom
2. Yearbook
3. Class Years
4. Choral and Band Groups
5. Classes
6. Student Clubs
7. Student Council
8. Student Sponsored Bookstores

8 General Fixed Assets Account Group. To record the cost of all property, plant and equipment other than those accounted for in the proprietary funds or fiduciary funds.

General fixed assets could include sites, site improvements, buildings and building improvements, machinery and equipment.

9 General Long-Term Debt Account Group. To record the principal amount of all long-term liabilities excluding those of the proprietary funds or fiduciary funds. The long-term liabilities could include general obligation bonds, capitalized lease obligations, legal judgments, special assessments payable to cities or other governmental units, unfunded pension liabilities, and notes and warrants which are not due within one year.

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it will be necessary to submit a written detailed explanation to the Division through the Office of the County Superintendent. The Secretary of the Board of Education is instructed to make the following adjustment entries:

1. Transfer the 1980-81 Unexpended Balances to the 1982-83 Current Expense J-2, Revenue Receipts, Ch. 192/193.

2. Reflect the unexpended balances as a deduction from either the Surplus Account or from the "W" Accounts Payable, depending in which account the 1980-81 Free Unexpended Balance is incurred.

The records of the Treasurer of School Moneys must reflect this same adjustment.

Districts under contract with an Educational Services Commission for services rendered under Chapters 192/193 are hereby authorized to make a prepayment on their 1982-83 contract in an amount equal to the unexpended balance of the 1980-81 school year. Such payments are to be made on or before July 15, 1982.

WTS:pmb

cc: County Superintendents

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ACCOUNTING FOR SPECIAL PROJECTS, (J-2) STATE/FEDERAL

All special projects, other than those funded locally under Current Expense, J-1, must be separately accounted for in Section E of the audit. The schedule of Special Projects must reflect revenues, expenditures and free balances for the following:

ACCOUNT NUMBER	PUBLIC
1131	State Compensatory Education
1141	Bilingual/English As A Second Language
1153	Supplemental Instruction
1154	Home Instruction
	NONPUBLIC
1161	Nonpublic Textbooks
	NONPUBLIC AUXILIARY SERVICES - CHAPTER 192
1171	Compensatory Education
1172	English As A Second Language
1173	Supplemental Instruction
1174	Home Instruction
1175	Transportation
	NONPUBLIC HANDICAPPED SERVICES - CHAPTER 193
1181	Examination and Classification
1182	Corrective Speech Services

NOTE: Prior year balances must be accounted for separately.

SPECIAL EDUCATION

N.J.A.C. 6:28-5.8 Reports Required

(a) At the close of the school year, the district board of education shall report to the State Department of Education on the total costs of each nonpublic auxiliary services activity. In the event that the expenditures incurred by the district board of education were less than the amount of State aid received, the district's State aid in the second subsequent year will be reduced by the amount of the unexpended funds. (See Appendix D)

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APPENDIX F

QUALIFICATIONS OF INDEPENDENT AUDITORS ENGAGED BY GOVERNMENTAL ORGANIZATIONS

When outside auditors are engaged for assignments requiring the expression of an opinion on financial reports of governmental organizations, only fully qualified public accountants should be employed. The type of qualifications, as stated by the Comptroller General, deemed necessary for financial audits of governmental organizations and programs is quoted below:

> "Such audits shall be conducted***by independent certified public accountants or by independent licensed public accountants, licensed on or before December 31, 1970, who are certified or licensed by a regulatory authority of a State or other political subdivision of the United States: Except that independent public accountants licensed to practice by such regulatory authority after December 31, 1970, and persons who although not so certified or licensed, meet, in the opinion of the Secretary, standards of education and experience representative of the highest prescribed by the licensing authorities of the several States which provide for the continuing licensing of public accountants and which are prescribed by the Secretary in appropriate regulations may perform such audits until December 31, 1973; provided, that if the Secretary deems it necessary in the public interest, he may prescribe by regulation higher standards than those required for the practice of public accountancy by the regulatory authorities of the State." [1]

[1] Letter (B-148144, Sept. 15, 1970) from the Comptroller General to heads of Federal departments and agencies. The reference to "Secretary" means the head of the department or agency.

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